

## NZAuASB Board Meeting Agenda

14 February 2024

9:00 am to 5.00 pm, XRB Offices, Level 6, 154 Featherston Street (Wellington Chambers).

Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary	
9.15am	<b>1</b>	<b><u>Board Management</u></b>					
	1.1	Action list	Approve	Paper	3		
	1.2	Chair's report	Note	Verbal			
	1.3	AUASB Update	Note	Verbal			
	1.4	Update from CE	Note	Verbal			
9.45am	<b>2</b>	<b><u>Environmental scanning</u></b>				<i>AH</i>	
	2.1	International Update	Note	Paper	4		
	2.2	Domestic Update	Note	Paper	7		
	2.3	Update for XRB Board	Note	Paper	8		
	2.4	Update on Australian climate reporting and assurance developments	Note	Late			
10.15am	<i>Morning tea</i>						
10:30am	<b>3</b>	<b><u>Service Performance Review Standard</u></b>				<i>LT/BM</i>	
	3.1	Summary paper	Note	Paper	17		
	3.2	Draft exposure draft – first read	Discuss	Paper		<i>1</i>	
11:30am	<b>4</b>	<b><u>Summer intern research on service performance information</u></b>					
	4.1	Summary paper	Note	Paper	20		
	4.2	Research report	Note	Late			
11:45am	<b>5</b>	<b><u>Authority of ISA for Less Complex Entities (LCE)</u></b>				<i>BM</i>	
	5.1	Summary paper	Note	Paper	21		
	5.2	Issues paper	Discuss	Paper	22		
	5.3	Summary of the authority of ISA for LCE	Note	Paper		34	
	5.4	Summary of audit and reporting requirements in New Zealand	Note	Paper		38	
12:15pm	<i>Lunch</i>						
12.45pm	<b>6</b>	<b><u>Update on IAASB by Greg Schollum</u></b>					
	6.1	IAASB Report December 2023	Note	Verbal	29		
1.15 pm	<b>7</b>	<b><u>Fraud</u></b>				<i>SW</i>	
	7.1	Summary paper		Late			
	7.2	IAASB Explanatory memorandum and ED		Late		xx	
1.45 pm	<b>8</b>	<b><u>Narrow Scope Amendments – Public Interest Entities</u></b>				<i>SW</i>	

Est.Time	Item	Topic	Objective		Page	Supplementary
	8.1	Summary paper	Note		34	
	8.2	NZ consultation document	Consider		36	
	8.3	IAASB Explanatory memorandum & ED	Note			42
2.00pm	<b>9</b>	<b><u>Responsible Investor Association of Australasia</u></b>				
	9.1	Summary paper			42	
2:30pm	<b>10</b>	<b><u>Sustainability Ethics and Independence</u></b>			<i>KT/AH</i>	
	10.1	Summary Paper	Discuss	Paper	43	
	10.2	Issues Paper – Whiteboard Session	Discuss	Paper	45	
	10.3	IESBA Exposure Draft	Note	Paper		132
	10.4	IESBA Explanatory Memorandum	Note	Paper		382
3:00pm	<b>11</b>	<b><u>Use of Experts</u></b>			<i>NCB</i>	
	11.1	Summary Paper	Discuss	Paper	50	
	11.2	Issues Paper – Whiteboard Session	Discuss	Paper	53	
	11.3	IESBA Exposure Draft & Explanatory Memorandum	Note	Paper		429
3:30pm	<i>Afternoon tea</i>					
3.45pm	<b>12</b>	<b><u>NZAuASB work plan</u></b>			<i>MP</i>	
	12.1	Summary paper	Note	Paper	60	
	12.2	Prioritisation schedule 2023/24	Note	Paper		486
	12.3	Draft prioritisation schedule 2024/25	Consider	Paper		489
	12.4	NZAuASB 2022-2027 action plan	Note	Paper		492
4:30pm	<b>13</b>	<b><u>External Confirmations</u></b>			<i>NCB</i>	
	13.1	Summary Paper	Note	Paper	63	
4.55pm	<b><u>Closing</u></b>					

Next meeting: 3 April 2024, Virtual, Teams

## NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 1

Review of Service Performance Information (NZ SRE 1)

### Commencement and application

[Content to be added]

### History of Amendments

[Content to be added]

### Introduction

1. Service performance information is information about what the entity has done and achieved during the reporting period in working towards its broader aims and objectives, together with supporting contextual information, when applicable, about why an entity exists, what it intends to achieve and how it goes about this, prepared in accordance with the applicable financial reporting framework. (Ref: Para. A1)

### Scope of this NZ SRE

2. This New Zealand Standard on Review Engagements (NZ SRE) deals with the assurance practitioner's responsibilities with respect to service performance information when an assurance practitioner is engaged to perform a review of service performance information concurrently with a review of the financial statements.
3. This NZ SRE establishes requirements and provides guidance not addressed by International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400<sup>1</sup> with respect to service performance information.
4. This standard together with ISRE (NZ) 2400 sets out the requirements to obtain limited assurance over service performance information.
5. This NZ SRE applies when the assurance practitioner is required by law or regulation or is otherwise engaged to review both the financial statements and the service performance information prepared in accordance with the applicable financial reporting framework. (Ref: Para. A2)

### Objective

6. The objective of the assurance practitioner is to obtain limited assurance to express a conclusion on the service performance information on whether anything has come to the assurance practitioner's attention that causes them to believe that the service performance information does not present fairly<sup>2</sup>, in all material respects, in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
7. The assurance practitioner may achieve the objective of this NZ SRE by considering the following two steps:

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<sup>1</sup> ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

<sup>2</sup> When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

- (a) Whether each of the following aspects of the service performance information appears to be appropriate and meaningful in accordance with the applicable financial reporting framework: (Ref: Para. A3)
- The elements/aspects of service performance that the entity has selected to report on.
  - The performance measures and/or descriptions the entity has used to report on what it has done in relation to those elements/aspects of service performance during the reporting period.
  - The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description.
- (b) Whether anything has come to the assurance practitioner's attention that causes them to believe that the reported service performance information does not present fairly, in all material respects, the actual service performance.

## Definitions

8. For the purposes of this NZ SRE, the following terms have the meanings attributed below:
- (a) **Misstatement** – Misstatements can be intentional or unintentional, qualitative, or quantitative, and include omissions. Misstatements can arise from error or fraud when:
- (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method is not appropriate and meaningful; or
  - (ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or
  - (iii) Incorrectly measuring or evaluating the entity's service performance.
- (b) **Management's expert** – An individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information.
- (c) **Service organisation** – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to reporting service performance information.

## Requirements

### General Requirements

#### *Conducting an Engagement in Accordance with this NZ SRE*

9. The assurance practitioner shall apply ISRE (NZ) 2400 and this NZ SRE when reviewing service performance information. (Ref: Para. A4)
10. The practitioner shall have an understanding of the entire text of this NZ SRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
11. The assurance practitioner shall not represent compliance with this NZ SRE unless the assurance practitioner has complied with the requirements of both this NZ SRE

and ISRE (NZ) 2400 in relation to the review of service performance information.

### *Professional Judgement and Professional Scepticism*

12. The assurance practitioner shall plan and perform the review of service performance information by exercising professional judgement and with an attitude of professional scepticism. (Ref: Para. A5)

### **Documentation**

13. The assurance practitioner shall document the nature, timing and extent of the procedures performed to comply with this NZ SRE and ISRE (NZ) 2400.
14. The documentation shall include:
  - (a) Significant professional judgements made in procedures performed, the evidence obtained, and conclusions reached. (Ref: Para. A6)
  - (b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

### **Agreeing the terms of the engagement**

15. The terms of engagement shall include: (Ref: Para. A7-A9)
  - (a) The responsibilities of the assurance practitioner with respect to the service performance information is to express a conclusion on the service performance information on whether anything has come to the assurance practitioner's attention that causes them to believe:
    - (i) that the service performance information does not present fairly, in all material respects; in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods,  
in accordance with the applicable financial reporting framework.
  - (b) The responsibilities of management or those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
    - (i) The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework;
    - (ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
    - (iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
    - (iv) Such internal control as management or those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether

due to fraud or error.

## **The Assurance Practitioner's Understanding**

### *Understanding the Entity*

16. The assurance practitioner shall obtain an understanding of: (Ref: Para. A10)
  - (a) Why the entity exists and what it intends to achieve i.e., its purpose or objective.
  - (b) What activities or services the entity performs.
  - (c) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance report.
  - (d) What is considered important to those stakeholders and users and what they may use the service performance information for.

### *Understanding Laws and Regulations*

17. The assurance practitioner shall obtain an understanding of: (Ref: Para. A11-A13)
  - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and laws and regulations that specify the form, content, preparation, publication, and review of service performance information; and
  - (b) How the entity is complying with that framework.

### *Understanding the Service Performance Information Reported*

18. The assurance practitioner shall obtain an understanding of: (Ref: Para. A14-A17)
  - (a) The applicable financial reporting framework relevant to the service performance information.
  - (b) The process, including the rationale and logic the entity undertook to determine what elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods and, if applicable, judgements to report.
  - (c) The process the entity undertook to identify the intended users of the service performance information and the level of engagement with the intended users.
  - (d) The measurement bases or evaluation methods used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.
  - (e) Changes to the elements/aspects of service performance, performance measures and/or descriptions and the measurement bases or evaluation methods used to report its service performance compared to prior year, planned, forecast or prospective information.
  - (f) Where the entity intends to report its service performance information.

### *Understanding of Internal Control*

19. The practitioner shall obtain an understanding of internal control, over the preparation of the service performance information. (Ref: Para. A18-A19)

## Planning

20. The assurance practitioner shall develop a review plan with a single review approach to concurrently cover the service performance information and the financial statements. (Ref: Para. A20-A22)
21. In establishing the review plan, the assurance practitioner shall:
  - (a) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts in respect of the review of service performance information.
  - (b) Determine the timing of when to consider whether the entity's service performance information is appropriate and meaningful.
  - (c) Determine whether expertise in a field other than accounting or assurance may be necessary regarding the service performance information. (Ref: Para. A55-A56)
22. The assurance practitioner shall discuss with management or those charged with governance:
  - (a) What elements/aspects of service performance and performance measures and/or descriptions the entity intends to report as part of its service performance information.
  - (b) What measurement bases or evaluation methods the entity intends to use to measure or evaluate its performance.
23. Any concerns identified shall then be communicated to management or those charged with governance as soon as practicable.

## Compliance With the Applicable Financial Reporting Framework

### *Appropriate and Meaningful*

24. The assurance practitioner shall consider whether the service performance information: (Ref: Para. A6, A23-A25, A32)
  - (a) Fairly reflects the assurance practitioner's understanding of the entity's performance from all other review work performed on the engagement. (Ref: Para. A26)
  - (b) Is likely to meet the needs of the intended user to enable an informed assessment of the entity's service performance. (Ref: Para. A27-A28)
  - (c) Relates to an element/aspect of service performance that significantly contributes to the entity's core purpose, functions or objectives. (Ref: Para. A29)
  - (d) Is likely to be sufficient appropriate evidence to support the performance measure and/or description.
  - (e) Is capable of measurement or evaluation in a consistent manner from period to period. (Ref: Para. A30-A31)
  - (f) Is presented in a way that is easy to follow, concise, logical and aggregated where appropriate so that it will enable a user to identify the main points of the entity's service performance in that year.

## **Materiality**

25. The assurance practitioner shall use the understanding gained in paragraphs 16-19 to determine the significant elements/aspects of service performance. (Ref: Para. A33-A34)
26. The assurance practitioner shall determine and document materiality considerations and/or materiality for service performance information to determine the: (Ref: Para. A6, A35-A38)
  - (a) Nature, timing and extent of review procedures; and
  - (b) Assurance practitioner's tolerance for misstatement in relation to material service performance measures and/or descriptions.
27. The assurance practitioner shall apply materiality when assessing: (Ref: Para. A39-A47)
  - (a) The appropriate and meaningfulness of the significant elements/aspects of service performance and related material performance measures and/or descriptions; and (Ref: Para. A39-A40)
  - (b) Individual or collective misstatements within performance measures and/or descriptions, measurement bases or evaluation methods, that based on the assurance practitioner's judgement, are likely to influence the decisions of the intended users based on the information.
28. The assurance practitioner shall revise the judgements made in determining materiality for the service performance information if matters come to the assurance practitioner's attention during the review that would have caused the assurance practitioner to make a different materiality judgement.
29. The assurance practitioner shall consider individually or collectively, the impact on the service performance information, of all misstatements identified during the review, other than those that are clearly trivial, that are uncorrected by the entity, . (Ref: Para. A42-A47)

## **Designing and Performing Procedures**

30. The assurance practitioner shall use the understanding obtained in paragraphs 16-19, to identify areas in the service performance information where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (Ref: Para. A48)
31. In obtaining sufficient appropriate evidence as the basis for a conclusion on the service performance information, the assurance practitioner shall design and perform enquiry and analytical procedures and, as the assurance practitioner considers necessary in the circumstances, other procedures: (Ref: Para. A49-A51)
  - (a) To address all material service performance information; and
  - (b) To address areas where material misstatements are likely to arise.
32. In designing analytical procedures, the assurance practitioner shall consider whether the data relevant to service performance information from the entity's information system and records are adequate for the purpose of performing the analytical procedures. (Ref: Para. A52)



33. Where possible the assurance practitioner shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. A53)
34. Where the service performance information relates to a group, obtain sufficient appropriate evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express a conclusion on the group service performance information. (Ref: Para. A54)

#### **Non-compliance with laws and regulations**

35. The assurance practitioner shall comply with ISRE (NZ) 2400 for actual, suspected or alleged non-compliance with provisions of those laws and regulations that are generally recognised to have a direct effect on the reporting of material service performance information.

#### **Use of work performed by others**

36. The assurance practitioner shall determine whether information to be used as evidence has been prepared using the work of a management's expert. (Ref: Para. A55-A56)
37. If the assurance practitioner uses work performed by another assurance practitioner or an expert in the course of performing the review, the assurance practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the assurance practitioner's purposes. (Ref: Para. A56)
38. Where a service organisation is used, the assurance practitioner shall obtain an understanding of the nature and significance of the services provided by the service organisation to identify areas where material misstatements are likely to arise in the service performance information and thereby provide a basis for designing procedures to address those areas.

#### **Written representations**

39. In addition to the representations required by ISRE (NZ) 2400<sup>3</sup>, the assurance practitioner shall request written representations from management or those charged with governance that they have fulfilled their responsibility for: (Ref: Para. A57)
  - (a) The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework.
  - (b) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
  - (c) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework.
  - (d) Such internal control as management or those charged with governance

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<sup>3</sup> ISRE (NZ) 2400, paragraph 61-65

determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

### **Evaluating the Evidence Obtained**

40. The assurance practitioner shall evaluate whether sufficient appropriate evidence has been obtained regarding service performance information, in accordance with ISRE (NZ) 2400<sup>4</sup>. (Ref: Para. A58)

### **Forming the Assurance Practitioner's Conclusion on the Service Performance Information**

41. The assurance practitioner shall form a conclusion on whether anything has come to their attention that causes the assurance practitioner to believe:
- that the service performance information does not present fairly<sup>5</sup>, in all material respects, in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods,  
in accordance with the applicable financial reporting framework.
42. In forming a conclusion on the service performance information, the assurance practitioner shall consider:
- (a) The appropriate and meaningfulness of the service performance information presented by the entity.
  - (b) Whether the service performance information is prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
  - (c) The availability of the measurement bases or evaluation methods to intended users. (Ref: Para. A59-A60)
  - (d) Whether uncorrected misstatements are material, individually or collectively, as required by paragraph 30.
  - (e) The sufficiency and appropriateness of evidence obtained, as required by paragraph 41.
43. When the information is prepared in accordance with a fair presentation framework, in addition to the requirements of paragraph 42, the assurance practitioner shall also consider whether anything has come to the assurance practitioner's attention that:
- (a) The overall presentation of the service performance information has been undermined by the inclusion of irrelevant information or information that obscures a proper understanding of the matters disclosed;
  - (b) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that does not achieve fair presentation.

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<sup>4</sup> ISRE (NZ) 2400, paragraph 66-68

<sup>5</sup> When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

### *Form of the Conclusion*

44. The assurance practitioner's conclusion on the service performance information, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied in the service performance information.

### *Unmodified Conclusion*

45. The assurance practitioner shall express an unmodified conclusion in the assurance practitioner's report on the service performance information when the assurance practitioner has obtained limited assurance to be able to conclude that nothing has come to their attention that causes the assurance practitioner to believe:

- that the service performance information does not present fairly<sup>6</sup>, in all material respects; in that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods,

in accordance with the applicable financial reporting framework.

### *Modified Conclusion*

46. The assurance practitioner shall modify the conclusion, with respect to the service performance information when:

- (a) The assurance practitioner concludes that either individually or collectively the elements/aspects of service performance, performance measure and/or descriptions, or measurement bases or evaluation methods are materially misstated in that it is not appropriate and meaningful and as such is not in accordance with the applicable financial reporting framework, or
- (b) The assurance practitioner concludes, based on the evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or
- (c) The assurance practitioner is unable to obtain sufficient appropriate evidence to conclude that the service performance information, as a whole, is free from material misstatement.

47. When the assurance practitioner modifies the conclusion with respect to the service performance information, the assurance practitioner shall consider the effect of the modification on the conclusion on the financial statements. (Ref: Para. A61)

48. If the assurance practitioner modifies the conclusion on the financial statements, the assurance practitioner shall consider the effect of the modification on the conclusion of the service performance information.

### **The Assurance Practitioner's report**

49. The assurance practitioner's report on the financial statements and the service performance information shall be included in a single report and shall include the

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<sup>6</sup> When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

elements required by ISRE (NZ) 2400<sup>7</sup> as applicable to the service performance information. (Ref: Para. A62-A63)

50. In addition to the requirements addressing financial statements in ISRE (NZ) 2400, the assurance practitioner's report shall:
- (a) Describe the responsibilities of management or those charged with governance, including for:
    - (i) The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with the applicable financial reporting framework;
    - (ii) The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
    - (iii) The overall presentation, structure and content of the service performance information in accordance with the applicable financial reporting framework; and
    - (iv) Such internal control as management or those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error;
  - (b) Describe the assurance practitioner's responsibility to express a conclusion on the service performance information including reference to this NZ SRE and ISRE (NZ) 2400. This description should include the responsibility of the assurance practitioner to conclude whether anything has come to the assurance practitioner's attention that causes them to believe:
    - (i) that the service performance information does not present fairly, in all material respects; in that the service performance information is not appropriate and meaningful, and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
  - (c) Describe a review of service performance information and its limitations, including the following statements:
    - (i) A review engagement under this NZ SRE and ISRE (NZ) 2400 is a limited assurance engagement;
    - (ii) The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and, as the assurance practitioner considers necessary in the circumstances, other procedures, and evaluates the evidence obtained; and
    - (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards

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<sup>7</sup> ISRE (NZ) 2400, paragraph 86-NZ86.1

issued by the External Reporting Board, and, accordingly, the assurance practitioner does not express an audit opinion on the service performance information; and

- (d) Include a conclusion paragraph that:
  - (i) Contains the assurance practitioner's conclusion on the service performance information;
  - (ii) Identifies the service performance information; and
  - (iii) Refers to the measurement bases or evaluation methods.

51. When the assurance practitioner modifies the conclusion with respect to the service performance information only, the conclusion shall clearly indicate that the conclusion on the financial statements is not modified. The assurance practitioner shall:
- (a) Use the heading "Qualified Conclusion on the Statement of Service Performance", "Adverse Conclusion on the Statement of Service Performance" or "Disclaimer of Conclusion on the Statement of Service Performance" as appropriate, for the conclusion paragraph in the assurance practitioner's report. The conclusion with respect to the financial statements shall use the heading "Conclusion on the Financial Statements"; and
  - (b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion on the Statement of Service Performance", "Basis for Adverse Conclusion on the Statement of Service Performance" or "Basis for Disclaimer of Conclusion on the Statement of Service Performance," as appropriate), in a separate section in the assurance practitioner's report immediately before the conclusion paragraph (referred to as the basis for conclusion paragraph in ISRE (NZ) 2400<sup>8</sup>).

#### *Scope Limitation*

52. If the assurance practitioner is unable to obtain sufficient appropriate evidence to form a conclusion, the assurance practitioner shall discuss with management or those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. A64-A65)

#### *Emphasis of Matter Paragraphs and Other Matter Paragraphs*

53. If the assurance practitioner considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the assurance practitioner shall include an Emphasis of Matter paragraph in the assurance practitioner's report.
54. If the assurance practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is relevant to users' understanding of the review of service performance information, the assurance practitioner shall include an Other Matter paragraph in the assurance practitioner's report.

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<sup>8</sup> ISRE (NZ) 2400, paragraph 80, 85

## **Communication with Management and Those Charged with Governance**

55. In applying ISRE (NZ) 2400<sup>9</sup>, the assurance practitioner shall communicate with management and those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review of service performance information that, in the assurance practitioner's professional judgement, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. A66-A68)

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## **Application and Other Explanatory Material**

### **Introduction (Ref: Para. 1)**

- A1. Service performance reporting requirements are generally less prescribed than financial information which may result in varied service performance reporting between similar entities and industries. The assurance practitioner may benefit from early engagement with the entity to understand the entity's service performance reporting process, and address any challenges that may arise having considered the factors required by paragraph 25.

### **Scope of this NZ SRE (Ref: Para. 5)**

- A2. An entity may be required to identify the service performance information that is prepared in accordance with the applicable financial reporting framework. This standard only applies to service performance information prepared in accordance with the applicable financial reporting framework.

### **Objective (Ref: Para. 7(a))**

- A3. Examples that the assurance practitioner may consider to assess aspects of service performance information include:
- The elements/aspects of service performance that the entity has selected to report on. For example, provide safe drinking water to stakeholders.
  - The performance measures and/or descriptions the entity has used to report on what it has done in relation to the elements/aspects of service performance during the reporting period. For example, 100% of water supplied was safe.
  - The measurement basis or evaluation method used to measure or evaluate the performance measure and/or description. For example, Drinking Water Standards for New Zealand or internally generated safe drinking water criteria.

## **General Requirements**

### *Conduct Engagement in Accordance with ISRE (NZ) 2400 (Ref: Para. 9)*

- A4. This NZ SRE supplements ISRE (NZ) 2400. It expands on how ISRE (NZ) 2400 is to be applied to the service performance information. This NZ SRE includes specific requirements for the service performance information that are not explicitly dealt with by ISRE (NZ) 2400 or where the application of ISRE (NZ) 2400 differs as a result of the nature of the service performance information.

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<sup>9</sup> ISRE (NZ) 2400, paragraph 42

### *Professional Judgement and Professional Scepticism (Ref: Para. 12)*

- A5. The applicable financial reporting framework enables an entity to determine how it selects, aggregates, measures and presents its service performance information. As such, this elevates the need for early engagement and planning of sufficient time to obtain an understanding of the entity and to exercise professional judgement, particularly to assess whether the service performance information is appropriate and meaningful and to determine materiality. The assurance practitioner may find it helpful to seek out examples of service performance reporting of similar entities.

### **Documentation (Ref: Para. 14(a))**

- A6. Examples of circumstances relating to the use of professional judgement to include in documentation include significant matters and judgements relating to:
- The appropriate and meaningfulness of the service performance information (Ref: Para. 24).
  - The factors considered in determining materiality and what measures are material (Ref: Para. 26).

### **Agreeing the Terms of the Engagement (Ref: Para. 15)**

- A7. The terms of the review engagement include references to the service performance information.
- A8. Some entities are required by the applicable financial reporting framework to prepare entity information.<sup>10</sup> For Tier 3 registered charities that have a statutory review requirement<sup>11</sup>, all information required to be prepared by the applicable reporting standard is required to be reviewed, including the entity information.
- A9. An illustrative engagement letter that covers the agreed terms of the engagement of the performance report is set out in Appendix 1.

### **The Assurance Practitioner's Understanding**

#### *Understanding the Entity (Ref: Para. 16)*

- A10. The assurance practitioner may obtain an understanding through:
- (a) Enquires with management or those charged with governance.
  - (b) Reading:
    - Founding documents such as rules, constitution or trust deed.
    - Statement of intent.
    - Past statements of service performance.
    - Funding documents or agreements.
    - Minutes from governance meetings.

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<sup>10</sup> Reporting Requirements for Tier 3 Not-for-Profit Entities  
Reporting Requirements for Tier 3 Public Sector Entities  
Reporting Requirements for Tier 4 Not-for-Profit Entities  
Reporting Requirements for Tier 4 Public Sector Entities

<sup>11</sup> Charities Act 2005, section 42C, paragraph 2(b)

- Entity's newsletters.
- Entity's public website.
- Charities register.
- Media reports.

*Understanding Laws and Regulations (Ref: Para. 17)*

- A11. Laws and regulations may differ among entities depending on their governing legislation.
- A12. The nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance information to be reported.
- A13. The provisions of those laws and regulations may require the entity to present particular service performance information which may be over and above any requirements to comply with the applicable financial reporting framework. As the reporting is required by law and regulation the assurance practitioner is not required to assess whether the service performance information is appropriate and meaningful.

*Understanding the Service Performance Information Reported (Ref: Para. 18)*

- A14. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established performance measures and/or descriptions or measurement bases or evaluation methods from guidance, standards, laws or regulation, or it may need to apply judgement to develop internally its own performance measures and/or descriptions or measurement bases or evaluation methods for its service performance information. The need for such judgement makes the preparation of service performance information inherently more susceptible to the risk of management bias.
- A15. The process applied by the entity to determine what service performance information to report on and how to measure or evaluate its service performance information may affect the work that the assurance practitioner carries out. The level of potential management bias in selecting the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods directly correlates with the amount of work that the assurance practitioner may need to perform when considering the service performance information reported or intended to report. For example, use of performance measures and/or descriptions or measurement bases or evaluation methods specified by external benchmarks or industry guidance may require less work than internally generated performance measures and/or descriptions or measurement bases or evaluation methods, as external guidance reduces the risk of management bias. The entity may have documentation that reflects the process it went through in selecting its service performance information. Transparency about the entity's process to select its service performance information and the entity's consideration of materiality may also affect the work that the auditor carries out.
- A16. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify its service performance information, or service performance information may be less accurate or complete. The entity may therefore be unable to include certain aspects of its service performance in its service performance information. The assurance practitioner exercises professional judgement to conclude on the impact of such



omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities will be at varying stages of maturity in respect of preparing service performance information.

- A17. Unforeseen events impacting the entity may require the entity to focus on different elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods than intended when the service performance information was determined for the period. The assurance practitioner should gain an understanding of such events and the impact it has on service performance reporting and whether any alternative elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods used are more appropriate and meaningful to fairly reflect the revised activities or services performance of the entity over the period.

#### *Understanding of Internal Control (Ref: Para. 19)*

- A18. Internal control systems related to the preparation of service performance may be less developed or less well embedded into the operations than those related to the preparation of financial information. They may be less traditional to those used for financial information.
- A19. An entity's internal control systems related to the preparation of service performance information may vary by size or complexity of the entity, and the nature and complexity of the service performance information. There is a difference between simple controls and inadequate controls. Simple controls may be adequate when the entity and the performance measure and/or description and its measurement basis or evaluation method are not complex.

#### **Planning (Ref: Para. 20)**

- A20. Although it is likely that the service performance information and financial information will come from different systems, a single approach to the review recognises the inextricable link between the service performance information and the financial statements of an entity.
- A21. It is important to engage with the entity as early as possible to understand the elements/aspects of service performance, performance measures and/or descriptions and measurement bases or evaluation methods the entity intends to report..
- A22. Expertise in a field other than accounting or assurance may be necessary as a result of information included in the service performance information, for example, expertise in relation to the measurement of complex performance measures.

#### **Compliance With the Applicable Financial Reporting Framework**

##### *Appropriate and Meaningful (Ref: Para. 24)*

- A23. When considering the service performance information, the assurance practitioner assesses how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods.
- A24. It is the entity's responsibility to determine what information to report, and for the assurance practitioner to consider the process and rationale the entity applied in

arriving at the selection of information to report, and to use professional judgement to assess whether the reported information does not present fairly, in all material respects, the service performance information.

A25. The entity's selection of appropriate and meaningful service performance information to report involves a considerable amount of judgement. Although enquiry may be the principal source of evidence, there may be documentation that provides evidence to support the judgements made by the entity in selecting the service performance information to report, for example, those referred to in paragraph A10.

A26. The assurance practitioner may consider whether the service performance information inappropriately attributes service performance to the entity. (Ref: Para. 24(a))

A27. The assurance practitioner may consider: (Ref: Para. 24(b))

- Whether the service performance information presents a neutral view including all significant aspects, both positive and negative.
- Whether any service performance information is omitted, where this is an appropriate link to the service performance of the entity.
- Whether there is potential for management bias in the selection of the performance measure and/or descriptions.
- If the entity reports targets, how those targets may obscure a proper understanding of the entity's service performance.
- The results of surveys. For example, satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints which may indicate the appropriateness of the service performance information.
- Whether the process to determine what service performance information to report involved the intended users and what information they may find helpful to assess the service performance of the entity - lowering the risk of management bias.
- External requirements or agreements with external parties that influence the entity's service performance accountability.
- Whether the service performance information was pre agreed with key stakeholders.
- Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information. The assurance practitioner may need to evaluate the suitability of these guidelines to the entity's circumstances and how these align to intended users' needs. More detailed service performance reporting may be more appropriate.
- Whether an overly voluminous service performance report is detracting from the usefulness and relevance of the overall report.
- Whether the service performance report is complete.

A28. An entity may select service performance information to report on the basis that the selected performance is readily obtainable or measurable however it may not be the

most relevant information to enable the user to understand or assess the service performance of the entity. (Ref: Para. 24(b))

A29. The assurance practitioner may consider whether: (Ref: Para. 24(c))

- The service performance information shows clear and logical links between the element/aspect of service performance to be measured or evaluated and the entity's overall purpose and strategies.
- There is other potentially more relevant service performance information that could have been used and reasons why those were not included.
- The entity has a clear understanding of its contribution toward longer term elements/aspects of service performance.
- The entity uses a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders; for example, a local authority's Long-Term Plan, statement of intent, charter, recent plans and strategies or agreements with key funders. The selection of service performance information pre agreed with key stakeholders may have a lower risk of management bias.
- The service performance information reflects how the entity assesses its service performance for the purpose of internal decision making.

A30. The potential for management bias directly correlates with the amount of consideration that the assurance practitioner may need to give to the appropriate and meaningfulness of the service performance information. For example, the assurance practitioner may need to consider management bias when there are multiple measurement bases or evaluation methods possible to assess a performance measure. Also, there may be greater management bias when the measurement basis or evaluation method is internally generated rather than an external industry standard. (Ref: Para. 24(e))

A31. Some service performance information that is more relevant for users, may be measured less precisely. The assurance practitioner may perform different review procedures than for those where the service performance can be more precisely measured. (Ref: Para. 24(e))

A32. The assurance practitioner's consideration of the appropriate and meaningfulness of service performance information may be an iterative process.

### **Materiality (Ref: Para. 25-29)**

A33. There can be significant variation in the service performance information selected and presented by entities. The assurance practitioner's understanding of the entity is important in determining what are the significant elements/aspects of the entity's service performance which are important to intended users of the service performance information.

A34. Understanding what elements/aspects of service performance are significant to users may assist the assurance practitioner in focusing their review efforts and applying professional judgement when considering any misstatements identified.

- A35. The assurance practitioner's materiality considerations and determination of materiality is a matter of professional judgement. The requirements in paragraph 24, particularly the factors regarding relevance considered by the assurance practitioner in paragraphs A25 to A33, may assist the assurance practitioner to determine materiality considerations and/or materiality.
- A36. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information. Such a discussion may provide a frame of reference to the assurance practitioner in determining what is material. The assurance practitioner's consideration of the entity's process to select the elements/aspects of service performance, the performance measures and/or descriptions, and measurement bases or evaluation methods to use also provides context in determining materiality considerations and/or materiality.
- A37. The basis for materiality will likely differ from the financial statements. Materiality may be expressed in terms of the appropriate unit of account for each element/aspect of service performance or performance measure and/or description reported. The assurance practitioner is unlikely to be able to set an overall materiality because there is unlikely to be a common unit of account. It may be possible to group similar service performance measures and/or descriptions together and make materiality decisions on the same basis if they have the same unit of account.
- A38. The materiality considerations determine the assurance practitioner's tolerance for misstatement in relation to material service performance measures and/or descriptions. Material misstatements may occur in both qualitative and quantitative service performance information. The assurance practitioner may need to exercise professional judgement beyond the traditional approach of applying a percentage to a chosen benchmark. In some instances, there may be no tolerance for error in some performance measures and/or descriptions.
- A39. It is a matter of professional judgement whether the assurance practitioner's assessment of the significant elements/aspects of service performance and related material performance measures and/or descriptions required by paragraph 27(a) gives rise to a material misstatement.
- A40. The assurance practitioner may firstly consider which elements/aspects of service performance are important to intended users. Having identified those, the assurance practitioner may then consider what are the material performance measures and/or descriptions that measure performance in those elements/aspects of service performance. A tolerance for misstatement is then applied by the assurance practitioner to material service performance measures and/or descriptions.
- A41. The following factors may assist the assurance practitioner in applying materiality:
- The importance of the element/aspect of service performance to achieving the entity's service performance objectives. For example, whether the performance measure and/or description relates to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
  - How the information is presented. For example, does the presentation draw attention to particular information? The assurance practitioner may be less tolerant of misstatement in information that is given the most prominence.
  - The extent of interest shown in particular aspects of service performance by, for

example funders, key stakeholders or the public; and for example, whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the assurance practitioner may be less accepting of misleading or inaccurate information.

- The economic, social, political and environmental effect of a project or an entity's work, where there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to an activity that could be a significant risk to the public.
- Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.
- The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- The number of persons or entities affected.
- Where there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, the assurance practitioner may be particularly diligent where a target has only just been achieved.
- Whether a misstatement is material having regard to the assurance practitioner's understanding of known previous communications to users.

### *Misstatements*

A42. A misstatement may arise when:

- An element/aspect of service performance or performance measure or description, or a measurement basis or evaluation method selected is assessed by the assurance practitioner as not being appropriate and meaningful;
- An element/aspect of service performance or performance measure and/or description is omitted that is assessed by the assurance practitioner as being appropriate and meaningful;
- The information is not prepared in accordance with the entity's measurement basis or evaluation method;
- The entity's service performance information is not in accordance with the applicable financial reporting framework.

A43. An individual misstatement, impacting a single element/aspect of service performance, performance measure and/or description, may be material.

A44. A number of misstatements, when observed collectively across the service performance information, may also be material if they amount to a misleading portrayal of the entity's service performance information. Even though taken individually, each service performance measure and/or description may not be materially misstated, the assurance practitioner needs to consider whether the service performance information as a whole is materially misstated.

A45. It is unlikely that the assurance practitioner will be able to aggregate misstatements numerically. However, this does not remove the need for the assurance practitioner to form a conclusion as to whether uncorrected misstatements are material individually or collectively, as required by paragraph 329.

A46. The assurance practitioner exercises professional judgement to conclude on the impact of any material misstatement on the conclusion. The assurance practitioner may consider factors such as whether the misstatement impacts a significant element/aspect of service performance and whether it is likely to influence the decisions of the intended users.

A47. Examples of factors that may lead to a material misstatement, include:

- Misuse of language – that creates a misleading picture of the entity's performance.
- Misleading presentation – which highlights or downplays aspects of performance, to create a misleading picture of the entity's service performance.
- Bias – an emphasis is placed on good performance and downplays or omits poor performance i.e., isn't neutral.
- Omission of fact – something is left out that may be important to understanding the entity's service performance or is important to intended users.
- Incorrect measurement or evaluation – the service performance measure isn't prepared in accordance with the measurement basis or evaluation method selected by the entity.
- Where quantifiable service performance information misstates the level of actual performance beyond a determined level (the traditional application of materiality).
- Misstatement of fact.
- Misrepresentation of trend – performance presented does not represent the facts available.
- Unsubstantiated claims.

#### **Designing and Performing Procedures (Ref: Para. 30-34)**

A48. Service performance information may not come directly from traditional financial reporting information systems and source records. Nevertheless, the entity will need an accurate record keeping system that provides relevant and reliable evidence. The assurance practitioner may find it more challenging and need to think differently than for traditional financial reporting to obtain relevant and reliable evidence.

A49. The mix of procedures to be performed may vary compared with the mix used in regard to the financial statements, but the mix of procedures used does not alter the level of evidence required.

A50. In a review, the assurance practitioner performs primarily enquiry and analytical procedures. However, the nature of service performance information reported may have an effect on the mix of procedures used. For example, due to the nature of the service performance information analytical procedures may not be relevant and so another substantive procedure may be more appropriate.

- A51. The fact that the assurance practitioner may deem it necessary to perform other procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the service performance information.
- A52. The assurance practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the assurance practitioner's understanding of the entity and its environment and is influenced by the nature and source of data, and by the circumstances in which the data are obtained. The following considerations may be relevant:
- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity.
  - Nature and relevance of the information available. For example, what is the proximity of the information to the effect being reported.
  - The knowledge, expertise and any related controls involved in the preparation of the information.
- A53. In designing analytical procedures, the assurance practitioner may be able to identify relationships between the service performance information and the financial information as a sense check that the financial and service performance information are reflecting a consistent report of the performance of the entity. For example, does the movement in fuel expense in the financial statements reflect the number of home visits reported.
- A54. When the assurance practitioner is engaged to review the service performance information of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the assurance practitioner's objectives for the review engagement stated in this NZ SRE, but in the context of the group service performance information.

**Use of work performed by others (Ref: Para. 36-38)**

- A55. The assurance practitioner may use the work of an individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information (a management's expert). Examples may include a professional survey firm conducting a perception questionnaire or satisfaction survey, or preparing a water quality report.
- A56. To be satisfied that the work performed by the other practitioner or expert is adequate, the assurance practitioner may, based on professional judgement, determine:
- (a) The nature, timing and scope of that other practitioner or expert's work.
  - (b) The risk of material misstatement in the matter to which that other practitioner or expert's work relates.
  - (c) Whether the other practitioner or expert has the necessary competence, capabilities and objectivity required.

**Written representations (Ref: Para. 39)**

- A57. An illustrative written representation letter is set out in in Appendix 2.

### **Evaluating the Evidence Obtained (Ref: Para. 40)**

A58. What constitutes sufficient appropriate evidence is a matter of professional judgement. The assurance practitioner may need to identify alternative sources of evidence not normally considered for reviews of financial information.

### **Forming the Assurance Practitioner's Conclusion on the Service Performance Information (Ref: Para. 41-48)**

A59. The measurement bases or evaluation methods used to assess a performance measure and/or description need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.

A60. The measurement bases or evaluation methods may be made available to the intended users in one or more ways, for example:

- (a) Publicly, for example, readily available documents such as a published external assessment framework on a website.
- (b) Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.
- (c) Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.
- (d) By general understanding, for example, the method of measuring time in hours and minutes. The assurance practitioner may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

### *Form of the Conclusion*

#### **Modified Conclusion (Ref: Para. 47)**

A61. In those circumstances where the assurance practitioner concludes that the service performance information is not presented fairly and that the assurance conclusion should be modified, the assurance practitioner will need to exercise professional judgement to determine whether to issue a modified conclusion on just the service performance information or whether to modify the conclusion on both the service performance information and the financial statements. In many instances, a modified conclusion in respect of the service performance information will not impact upon the conclusion on the financial statements.

### **The Assurance Practitioner's report (Ref: Para. 49-54)**

A62. The assurance practitioner's report includes references to the service performance information. An illustrative Assurance Practitioner's Report that includes references to the service performance information is set out in Appendix 3.

A63. Illustrations of Assurance Practitioner's Reports with Modified Conclusions with respect to Service Performance Information are set out in Appendix X. [*to be determined*]



*Scope Limitation (Ref: Para. 52)*

- A64. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the assurance practitioner is able to obtain sufficient appropriate evidence by performing other procedures.
- A65. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the assurance practitioner's consideration of areas where the service performance information is likely to be materially misstated, and engagement continuance.

**Communication with Management and Those Charged with Governance (Ref: Para. 55)**

- A66. The assurance practitioner is encouraged to communicate with management or with those charged with governance early or as soon as practicable.
- A67. The assurance practitioner may communicate the following matters in relation to the review of service performance information:
- (a) Any uncorrected misstatements identified during the review of the service performance information;
  - (b) The assurance practitioner's views about significant judgements made in reporting the entity's service performance information, if applicable, including any areas for improvement;
  - (c) Significant difficulties, if any, encountered during the review, for example, extensive unexpected effort required to obtain sufficient appropriate evidence or the unavailability of expected information.
  - (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the review that were discussed, or subject to correspondence with management, such as, matters that were pervasive to the service performance information, biases in the performance measures and/or descriptions, for example, questions in a survey articulated to drive a particular result; and
  - (e) Any other matters in respect of the service performance information that, in the assurance practitioner's professional judgement, management and those charged with governance, as appropriate, need to be aware of.
- A68. The assurance practitioner's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. For example, why the assurance practitioner considers the service performance information not to be appropriate and meaningful. Open and constructive communication including feedback on the maturity of the entity's process to prepare the service performance information, the service performance information selected by the entity or how the information compares to other entities may drive improvements over time. This may include comments about, for example, judgemental aspects of what service performance information to report on, concerns regarding management bias or the quality of the presentation of the information.

## Appendix 1

(Ref: Para. A9)

### Illustrative Review Engagement Letter including Service Performance Information<sup>12</sup>

The following is an example of a review engagement letter for a review of a *[financial report/ performance report]*, which comprise financial statements and service performance information *[and entity information]*. It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in ISRE (NZ) 2400 and NZ SRE 1. It will need to be varied according to individual requirements and circumstances. It may be appropriate to seek legal advice that any proposed letter is suitable.

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To *[Those Charged with Governance]*:

#### ***[The objective and scope of the review]***

You<sup>13</sup> have requested that we review the *[financial report/ performance report]* of *[ABC Entity (the "entity")]*, which comprise the financial statements, and the service performance information *[, and entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3<sup>14</sup>, *[the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity]*, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of our expressing our conclusion on the *[financial report/ performance report]*.

#### ***[The assurance practitioner's responsibilities]***

We will conduct our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity* and the review of the service performance information *[, and entity information]* in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that: the *[financial report/ performance report]*, taken as a whole, do not present fairly, in all material respects, in accordance with *[the applicable financial reporting framework (e.g., Reporting Requirements for Tier 3 Not-for-Profit Entities)]*; and the service performance information is not appropriate and meaningful and

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<sup>12</sup> May also be referred to as the Statement of Service Performance.

<sup>13</sup> Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "assurance practitioner" would be used or amended as appropriate in the circumstances.

<sup>14</sup> Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*.

Those standards also require that we comply with relevant ethical requirements.

A review of the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. We will perform procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we consider necessary in the circumstances, other procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the *[financial report/ performance report]* as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1. The procedures selected will depend on what we consider necessary applying our professional judgement, based on our understanding of the entity and its environment, and our understanding of the applicable financial reporting framework and its application in the industry context.

A review is not an audit of the *[financial report/ performance report]*, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the *[financial report/ performance report]* reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE (NZ) 2400 and NZ SRE 1.
- (b) In expressing our conclusion from the review of the *[financial report/ performance report]*, our report on the performance report will expressly disclaim any audit opinion on the *[financial report/ performance report]*.

***[The responsibilities of those charged with governance and identification of the applicable financial reporting framework]***

Our review will be conducted on the basis that *[Those Charged with Governance]* acknowledge and understand that they have responsibility, on behalf of the entity:

- (a) For the preparation, and fair presentation of the *[financial report/ performance report]* in accordance with *[the applicable financial reporting framework]*;
- (b) For the selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful and, in accordance with *[the applicable financial reporting framework]*;
- (c) For the preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*;
- (d) For the overall presentation, structure and content of the service performance information in accordance with *[the applicable financial reporting framework]*;
- (e) For such internal control as *[Those Charged with Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error; and
- (f) To provide us with:
  - (i) Access to all information of which *[management and [Those Charged with*

*Governance*] are aware that is relevant to the preparation of the [*financial report/ performance report*] such as records, documentation and other matters;

- (ii) Additional information that we may request from [*management or [Those Charged with Governance]*] for the purpose of the review; and
- (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [*Those Charged with Governance*], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your team during our review.

**[Other relevant information]**

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

**[Reporting]**

[Insert appropriate reference to the expected form and content of the assurance practitioner's report.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the [*financial report/ performance report*] including our respective responsibilities.

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate]

Acknowledged and agreed on behalf of [*Those Charged with Governance*] of [*ABC Entity*] by  
(signed)

.....

Name and Title

Date

## Appendix 2

(Ref: Para. A57)

### Illustrative Representation Letter including Service Performance Information<sup>15</sup>

The following illustrative representation letter includes written representations that are required by ISRE (NZ) 2400 and NZ SRE 1. It is to be used as a guide only and will need to be modified according to the engagement requirements and circumstances.

Representations by management, or where appropriate, those charged with governance<sup>16</sup>, will vary between entities and reporting periods. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management, or where appropriate, those charged with governance have made oral representations which the assurance practitioner wishes to confirm in writing.

It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

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(Entity Letterhead)

(To Assurance Practitioner)

(Date)

This representation letter is provided in connection with your review of the [*financial report/ performance report*] of [*ABC Entity (the "entity")*] for the year ended December 31, 20X3<sup>17</sup> for the purpose of expressing a conclusion as to whether anything has come to your attention that causes you to believe:

- that the accompanying [*financial report/ performance report*] do not present fairly, in all material respects:
  - [the entity information as at December 31, 20X3;]
  - the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
  - the service performance for the year ended December 31, 20X3
- that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods in accordance with [*the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)*] issued by the New Zealand Accounting Standards Board.

We confirm that, (*to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves*):

#### **[Financial Report/ Performance Report]**

<sup>15</sup> May also be referred to as the Statement of Service Performance.

<sup>16</sup> Use terminology as appropriate in the circumstances.

<sup>17</sup> Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the review engagement dated [*insert date*], for:
  - The preparation, and fair presentation of the [*financial report/ performance report*] in accordance with [*the applicable financial reporting framework*];
  - The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in accordance with [*the applicable financial reporting framework*];
  - The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*];
  - The overall presentation, structure and content of the service performance information in accordance with [*the applicable financial reporting framework*]; and
  - Such internal control as [*Those Charged with Governance*] determine is necessary to enable the preparation of the [*financial report/ performance report*] that is free from material misstatement, whether due to fraud or error.
- [*Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).*]

#### *Information Provided*

- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the [*financial report/ performance report*] such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the review; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence.
- We have disclosed to you:
  - The identity of the entity's related parties and all the related party relationships and transactions of which we are aware;
  - All significant facts relating to any frauds or suspected frauds known to us that may have affected the entity;
  - All known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's [*financial report/ performance report*];
  - All information relevant to use of the going concern assumption in the [*financial report/ performance report*];
  - That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;

- Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures;
- Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration; and
- *[Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).]*

Signed on behalf of [*Those Charged with Governance*]<sup>18</sup> of [*ABC Entity*] by

(signed)

.....

Name and Title

(signed)

.....

Name and Title

DRAFT

---

<sup>18</sup> The addressees and references in the letter would be those appropriate in the circumstances of the engagement.

## Appendix 3

(Ref: Para. A62)

### Illustrative Assurance Practitioner’s Review Report including Service Performance Information<sup>19</sup>

#### **Illustration 1: Illustrative Assurance Practitioner’s Review Report**

Circumstances include the following:

- Review of a [*financial report/ performance report*] of a public benefit entity that is not a group.
- The [*financial report/ performance report*] is prepared in accordance with a fair presentation framework.
- The terms of the review engagement reflect the description of the responsibility of those charged with governance for the [*financial report/ performance report*].
- The assurance practitioner has concluded an unmodified (i.e., “clean”) conclusion is appropriate based on the evidence obtained.
- The assurance practitioner has no other reporting responsibilities required under local law.

Reference should be made to ISRE (NZ) 2400 to ensure that the requirements of ISRE (NZ) 2400 have been met.

#### **INDEPENDENT ASSURANCE PRACTITIONER’S REVIEW REPORT**

[*Appropriate Addressee*]

We have reviewed the accompanying [*financial report/ performance report*] of [*ABC Entity (the “entity”)*], which comprise the financial statements on pages x to xx, and the service performance information on pages x to xx [, and entity information on page x]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X3, and [*the statement of comprehensive revenue and expense, statement of financial performance, statement of changes in net assets/equity*], and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

#### **Responsibilities of [*Those Charged with Governance*]<sup>20</sup> for the [*Financial Report/ Performance Report*]**

[*Those Charged with Governance*] are responsible on behalf of the entity for:

- The preparation, and fair presentation of the [*financial report/ performance report*] in accordance with the applicable financial reporting framework;
- The selection of elements/aspects of service performance information, performance measures and/or descriptions and measurement bases or evaluation methods that present service performance information that is appropriate and meaningful, in

<sup>19</sup> May also be referred to as the Statement of Service Performance.

<sup>20</sup> Use the term that is appropriate in the context of the engagement.



accordance with *[the applicable financial reporting framework]*;

- The preparation of service performance information in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*;
- The overall presentation, structure and content of the service performance information in accordance with *[the applicable financial reporting framework]*; and
- Such internal control as *[Those Charged with Governance]* determine is necessary to enable the preparation of the *[financial report/ performance report]* that is free from material misstatement, whether due to fraud or error.

### **Assurance Practitioner's Responsibilities**

Our responsibility is to express a conclusion on the *[financial report/ performance report]*. We conducted our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*, and *[entity information and]* service performance information in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that: the *[financial report/ performance report]*, taken as a whole, do not present fairly, in all material respects, in accordance with *[the applicable financial reporting framework (e.g., Reporting Requirements for Tier 3 Not-for-Profit Entities)]*; and the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with *[the applicable financial reporting framework]*.

Those standards also require that we comply with relevant ethical requirements.

A review of the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we considered necessary in the circumstances, other procedures; and evaluate the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board. Accordingly, we do not express an audit opinion on the *[financial report/ performance report]*.

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the entity.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe:

- that the accompanying *[financial report/ performance report]* do not present fairly, in all material respects:
  - *[the entity information as at December 31, 20X3;]*
  - the financial position of the entity as at December 31, 20X3, and its financial performance, and its cash flows for the year then ended; and
  - the service performance for the year ended December 31, 20X3

- that the service performance information is not appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods in accordance with [*the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)*] issued by the New Zealand Accounting Standards Board.

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate*]

[*Assurance practitioner's address*]

[*Date*]

DRAFT

DRAFT

# ISA for LCE Authority

**A summary of the proposed specific prohibitions, quantitative characteristics and qualitative thresholds for using ISA for LCE in New Zealand**

The International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) is designed to enable the achievement of the overall objectives of the auditor, given the typical nature and circumstances of a LCE. There are limitations to the use of the ISA for LCE, which are designated into three categories, including specific prohibitions, qualitative characteristics, and quantitative thresholds.

The following document is a summary of the Authority of ISA for LCE. This has been updated since it was first presented to the board in August 2023.

## Specific prohibitions

There are specific classes of entities for which the use of the ISA for LCE is prohibited.

- a) When ISA for LCE is prohibited by law or regulation in that jurisdiction.
- b) The entity is a listed entity.
- c) The entity falls into one of the following classes:
  - Takes deposits from the public, as one of its main functions.
  - Provide insurance to the public, as one of its main functions.
  - Is a class of entities where use of ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.
  - An entity that meets the tier 1 criteria in accordance with XRB A1<sup>1</sup> and is not eligible to
- d) The entity is an audit of a group financial statements (group audit), and:
  - Any of the groups individual entities or business units meets the criteria in b) or c), above.
  - Component auditors are involved, except when the component auditor’s involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents).



report in accordance with the accounting requirements of another tier.

<sup>1</sup> XRB A1 Accounting Standards Framework



Suggested amendment to the specific prohibitions are in green text and discussed in agenda item 5.2.

## Tier One threshold

The thresholds are defined in XRB A1, as follows:

### For-profit

Tier	Entity type
Tier 1	Has public accountability (in XRB A1) or is a large for-profit public sector entity with total expenses <sup>2</sup> > \$30million

### Public Benefit Entity (NFP and PS)

Tier	Entity type
Tier 1	Has public accountability (in XRB A1) or is a large PBE with total expenses <sup>2</sup> > \$30million. <b>Note that the NZASB is currently consulting on changing this threshold to &gt;\$33million</b>

<sup>2</sup>For each of the 2 preceding accounting periods.

## Qualitative characteristics

The following list describes characteristics of a typical LCE for the purpose of determining the appropriate use of the ISA for LCE. The list is not exhaustive nor intended to be absolute (including numerical indicators), and other relevant matters may also need to be considered.

Each of the qualitative characteristics may not, on its own, be sufficient to determine whether the ISA for LCE is appropriate or not in the circumstances. Therefore, the matters described in the list are intended to be considered both individually and in combination.

Notwithstanding that professional judgement is applied in determining whether this standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria, the use of the ISA for LCE is not appropriate.

Furthermore, ISA for LCE does not include requirements on:

- Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.
- When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of an LCE.
- When the auditor intends to use a report provided by a service auditor of a service organisation either as audit evidence about the design and implementation of controls at the service organisation (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organisation are operating effectively (i.e., a type 2 report), as this would ordinarily not be applicable to an audit of an LCE.

<b>Business Activities, Business Model &amp; Industry</b>	<p>The entity's business activities, business model or the industry in which the entity operates do not give rise to significant pervasive business risks.</p> <p>There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).</p> <p>The entity's transactions result from few lines of business or revenue streams.</p>
<b>Organisational Structure and Size</b>	<p>The organisational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less).</p>
<b>Ownership Structure</b>	<p>The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.</p>
<b>Nature of Finance Function</b>	<p>The entity has a centralised finance function, including centralised activities related to financial reporting.</p> <p>There are few employees involved in financial reporting roles (e.g., 5 individuals or less).</p>
<b>Information Technology (IT)</b>	<p>The IT environment of the entity, including its IT applications and IT processes, is straightforward.</p> <p>The entity uses commercial software and does not have the ability to make any programme changes other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds).</p> <p>Access to the software is generally limited to one or two designated individuals for the purpose of making the configurations.</p> <p>Few formalised general IT controls are needed in the entity's circumstances.</p>
<b>Application of the Financial Reporting Framework and Accounting Estimates</b>	<p>Few accounts or disclosures in the financial statements of the entity necessitate the use of significant management judgement in applying the requirements of the financial reporting framework.</p> <p>The entity's financial statements ordinarily do not include accounting estimates that involve the use of methods, models, assumptions, or data, that are complex.</p>

## Qualitative characteristics for Group Audits

For group audits, the following qualitative characteristics are to be considered in addition to those above.

For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units.

Notwithstanding that professional judgement is applied in determining whether this standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria, the use of the ISA for LCE is not appropriate.

---

<b>Group Structure and Activities</b>	The group has few entities or business units (e.g., 5 or less). Entities or business units within the group operate in jurisdictions with similar characteristics, for example laws and regulations and business practices.
<b>Access to Information or People</b>	Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the group auditor.
<b>Consolidation Process</b>	The group has a simple consolidation process. For example: <ul style="list-style-type: none"><li>• Intercompany, or other consolidation adjustments are not complex.</li><li>• Financial information of all entities or business units has been prepared in accordance with the similar accounting policies applied to the group financial statements; and</li><li>• All entities or business units have the same financial reporting period-end as that used for group financial reporting.</li></ul>

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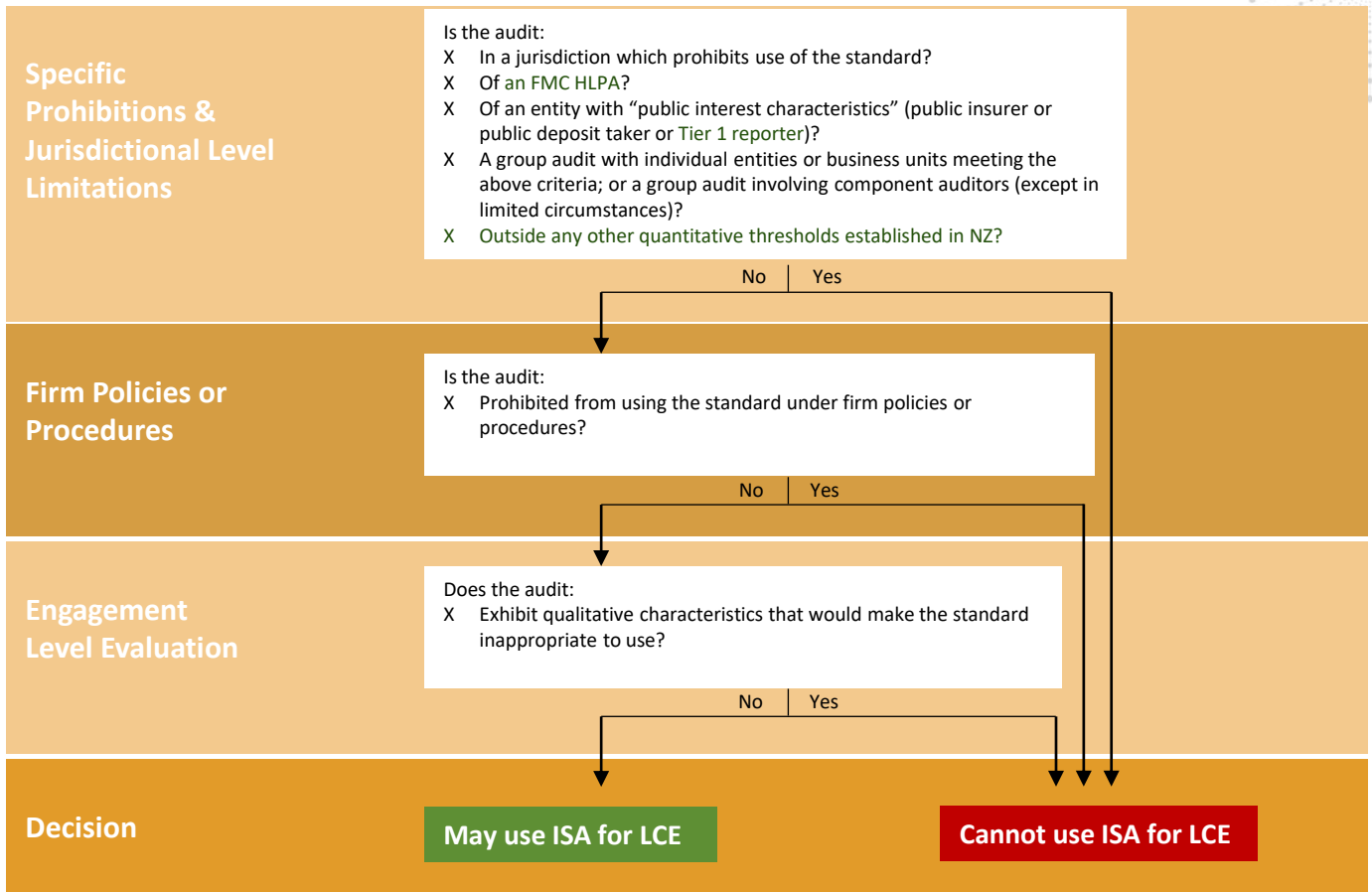
## Quantitative thresholds



Refer to our [Agenda item 5.2](#) which provides options for this section.



## Summary



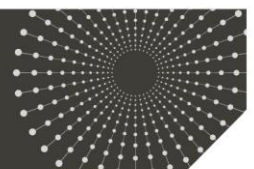
### Contact us

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## Brief summary of audit and reporting requirements in New Zealand

For your reference, we have detailed below the reporting and audit requirements of the most common entities, split between for-profit, not-for-profit, and public sector entities.

The [XRB website](#) also provides a list of Acts which set out which types of organisations must produce, obtain assurance, and publish financial statements

### For-profit

#### Reporting

The following table details the reporting requirements for for-profit entities and for-profit public sector entities (source: 2019 [XRB Targeted Review of the New Zealand Accounting Standards Framework](#)):

For-profit Entities		
Tier	Entity type	Standards
Tier 1	Has <b>public accountability</b> , <sup>17</sup> or is a large for-profit public sector entity with total expenses > \$30million	New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS)
Tier 2	Has <b>no public accountability</b> and is <b>not</b> a large for-profit public sector entity (i.e. not a for-profit public sector entity with total expenses > \$30 million)	NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR)

According to the 2019 [XRB Targeted Review of the New Zealand Accounting Standards Framework](#) “the for-profit Tier 2 population includes certain companies and partnerships (e.g. “large” companies as defined in the Companies Act 1993), retirement villages, for-profit subsidiaries of local councils and other entities that have a statutory requirement to prepare GPFR.”

#### Special purpose framework

- For-profit entities that are not mandated to report under either Tier, may report under a special purpose framework.
- No data is available for how many entities report special purpose financial statements or have those financial statements audited.
- We are aware that early childhood educators who are a private service, for example a partnership, sole trader, or limited liability company, can choose to provide either general purpose financial statements or a special purpose financial report to the Ministry of Education.
- Entities may use the Special Purpose Financial Reporting Framework issued by CAANZ. This framework is designed for use by small and medium sized entities (SMEs). SMEs often produce financial statements only for the purposes of meeting the user needs of owners, tax authorities or banks, this framework is considered suitable for these SMEs. A SME would likely be a less complex entity, and eligible to be audited under the ISA for LCE, should they meet the qualitative characteristics.



## Audit requirements

Audit requirements for for-profit entities:

- FMC reporting entities: Audit
- Companies

Type of Company	Applicable “large” threshold	Audit requirement
Large NZ incorporated company (with less than 25% overseas ownership) (can opt-out)	In each of the two preceding accounting periods, total assets (including subsidiaries) at the balance date exceeded \$66 million, or total revenue (including subsidiaries) exceeded \$33 million.	Yes <i>Can opt-out</i>
Large NZ incorporated company (with 25% or more overseas ownership)	In each of the two preceding accounting periods, total assets (including subsidiaries) at the balance date exceeded \$66 million, or total revenue (including subsidiaries) exceeded \$33 million.	Yes
Large overseas company carrying on business in NZ or Large NZ subsidiary	In each of the two preceding accounting periods, total assets (including subsidiaries) at the balance date exceeded \$22 million, or total revenue (including subsidiaries) exceeded \$11 million.	Yes
Non-large NZ company with ≥10 shareholders	-	Yes <i>Can opt-out</i>
Non-large NZ company with <10 shareholders	-	No <i>Can opt-in</i>

- Certain Partnerships under the Limited Partnerships Act 2008 and Partnership Law Act 2019: Audit

There is a lack of readily accessible data specifying the number of for-profit entities who are audited or what Tiers they report under.

## Not-for-profit

### Reporting

The current reporting requirements for not-for-profit and public sector public benefit entities are (from the XRB’s 2023/4 [PBE Tier Sizes Consultation Document](#)):

Tier	Criteria	Standards
<b>Tier 1</b>	Has <a href="#">public accountability</a> , or is large (total expenses > \$30 million)	PBE Standards
<b>Tier 2</b>	No public accountability and Not large (total expenses ≤ \$30 million)	PBE Standards Reduced Disclosure Regime (PBE Standards RDR)
<b>Tier 3</b>	No public accountability Total expenses ≤ \$2million	Reporting requirements for Tier 3 Entities (The Tier 3 Standard)
<b>Tier 4</b>	No public accountability and Allowed by law to use cash accounting (operating payments < \$140,000)	Reporting Requirements for Tier 4 Entities (The Tier 4 Standard)

The number of registered charities reporting under each Tier (from the XRB’s 2023/4 [PBE Tier Sizes Consultation Document](#)):

	2016 - 2017		30 June 2023		Change	
	Number	%	Number	%	Number	%
Tier 1	69	<1%	126	<1%	57	<1%
Tier 2	859	4%	1,185	5%	326	1%
Tier 3	5,175	22%	6,169	24%	994	2%
Tier 4	17,666	74%	18,600	71%	934	- 3%
<b>Total</b>	<b>23,769</b>		<b>26,080</b>		<b>2,311</b>	

At this point, we should note that the NZASB is currently [consulting](#) on the Public Benefit Entity Tier Sizes. We have also discussed this matter with the accounting standards team.

- One aspect of this proposed change is that public benefit entities with total expenditure over \$33million (over the previous 2 accounting periods) would report using the standards applicable to Tier 1 entities. This threshold is currently \$30million.
- There would be some entities eligible to transition from tier 1 to tier 2, as the threshold moves from \$30million to \$33million. The writer of this paper reviewed the charities register as of January 24, 2024. Filtering the register to show data of annual returns of individual charities with total expenditure between \$30million and \$33million indicated only 12 charities were within this bracket. The majority (7) already report under Tier 2. Only four currently report under Tier 1 and may be eligible to report under Tier 2. (and for completeness, one charity reported under an Australian reporting framework). This indicates that raising threshold to \$33million would have a minimal impact on the number of Tier 1 entities eligible to transition to Tier 2.
- We have concluded that this proposed change to the tier thresholds would have minimal impact on our proposed exclusion of Tier 1 entities from the ISA (NZ) for LCE.

#### *Audit requirements*

- Incorporated Societies registered under the 2022 Act are required to be audited for total operating expenditure over \$3 million (in each of the two preceding accounting periods). There is no requirement for audit under the Incorporated Societies Act 1908. A significant number of incorporated societies are registered charities, so their assurance requirements would be in accordance with the Charities Act.
- Registered Charities with total operating expenditure over \$1.1million are required to be audited. Those with total operating expenditure between \$550,000 and \$1.1million can be audited or reviewed. (in each of the two preceding accounting periods).
- Accurate data is not readily available as to the number of entities that are audited or reviewed. However, the XRB research project currently in progress will provide some insight into the types of registered charities that are audited or reviewed.

#### **Public Sector Entities**

- For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001. They include state-owned enterprises (such as New Zealand Post Limited), mixed ownership model companies (such as Genesis Energy Limited), and Crown Research Institutes (such as National Institute of Water and Atmospheric Research Limited).

- Public sector public benefit entities (PBEs) are PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.
- The reporting tiers applicable for public sector entities are aligned with the for-profit and not-for-profit entities, as relevant, which are detailed in the tables above.
- The number of public sector PBEs by tier from the 2019 [XRB Targeted Review of the New Zealand Accounting Standards Framework](#):

<b>All public Sector PBEs</b>		
Tier 1	Approx. 210	7%
Tier 2	Approx. 2,580	82%
Tier 3	Approx. 220	7%
Tier 4	Approx. 130	4%
<b>Total PBEs</b>	<b>Approx. 3,140</b>	<b>100%</b>

<b>Public sector PBEs excluding schools</b>		
Tier 1	Approx. 210	28%
Tier 2	Approx. 190	25%
Tier 3	Approx. 220	29%
Tier 4	Approx. 130	17%
<b>Total PBEs</b>	<b>Approx. 750</b>	<b>100%</b>

- The majority of Public Sector PBEs, which are required to be audited and report under the Tier 2 reporting framework, are schools.

Exposure Draft

January 2024

Comments due: April 8, 2024

Proposed Narrow Scope Amendments to:

- International Standards on Quality Management;
- International Standards on Auditing;
- and
- International Standard on Review Engagements 2400 (Revised),  
*Engagements to Review Historical Financial Statements*

as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

IAASB

International Auditing  
and Assurance  
Standards Board

## About the IAASB

This document has been prepared and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group (CAG), which provides public interest input into the development of the standards and guidance (a new Stakeholder Advisory Council will commence activities in 2024 and replaces the IAASB CAG).

For copyright, trademark, and permissions information, please see [page 89](#).



## REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read along with, the Exposure Draft (ED), proposed *Narrow Scope Amendments to the International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code*,<sup>1</sup> which was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication may be downloaded from the IAASB website: [www.iaasb.org](http://www.iaasb.org). The approved text is published in the English language.

The proposals in this ED may be modified based on comments received before being issued in final form. **Comments are requested by April 8, 2024.**

### *Use of Response Template*

**We encourage all respondents to submit their comments electronically using the [Response Template](#) provided.** The response template has been developed to facilitate responses to the questions in **Section 2** of this EM. Use of the template will facilitate our collation and analysis of the responses.

*Recognizing that the IAASB utilizes software to support our analysis of comments received from respondents to public consultations, you can assist our review of the responses by bearing the following in mind in preparing your submission:*

- Respond directly to the questions in the template and **provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements or application material. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.**
- You may respond to all questions or only those questions for which you have specific comments.
- When formulating your responses to a question, it is most helpful to identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
- Avoid inserting tables or text boxes in the template when providing your responses to the questions.

**The completed response template can be uploaded using the “Submit Comment” [link](#) on the IAASB website: [www.iaasb.org](http://www.iaasb.org).** When submitting your completed response template, it is not necessary to include a covering letter with a summary of your key issues. The response template provides the opportunity to provide details about your organization and, should you choose to do so, any overall views you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

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<sup>1</sup> The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow scope amendments to certain International Standards as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code. The IAASB approved the proposed amendments to the ISQMs, ISAs and ISRE 2400 (Revised) on December 14, 2023, for exposure.

## Background

### *IESBA's Project on the Definitions of Listed Entity and PIE*

2. In December 2021, the IESBA concluded its project on the [Definitions of Listed Entity and Public Interest Entity](#), which included revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE (the IESBA PIE Revisions).<sup>2</sup>
3. The IESBA PIE Revisions become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, and include the following key features:
  - (a) An overarching objective in paragraph 400.8, setting out the basis for defining a class of entities as PIEs for which auditors are subject to additional independence requirements under the IESBA Code.
  - (b) Factors, in paragraph 400.9, for consideration in evaluating the extent of public interest in the financial condition of an entity. These factors may be used by relevant local bodies responsible for setting ethics standards for professional accountants and firms as described in (d)(i) and (d)(ii)(a) below.
  - (c) An explanation, in paragraph 400.10, that clarifies why there are additional independence requirements that are applicable only to audits of financial statements of PIEs in the IESBA Code (i.e., to meet the heightened expectations of stakeholders regarding the independence of a firm when performing an audit engagement for a PIE given the significance of the public interest in the financial condition of such entities).
  - (d) A revised definition of PIE in paragraph R400.17 and the IESBA Code Glossary, that includes a broadly defined list of mandatory categories of entities that firms should treat as PIEs, subject to refinement by relevant local bodies as part of the adoption and implementation process of the approved IESBA PIE Revisions. This is accompanied by:
    - (i) A requirement in paragraph R400.18, for firms to take into account more explicit definitions of PIEs established by law, regulation or professional standards when deciding whether an entity falls within the scope of the mandatory PIE categories.
    - (ii) Guidance explaining the interrelationship of the PIE definition in the IESBA Code with definitions established by relevant local bodies responsible for setting ethics standards for professional accountants, which includes an explanation that the IESBA Code:
      - a. Provides for bodies responsible for setting ethics standards for professional accountants to more explicitly define mandatory categories of PIEs, with

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<sup>2</sup> See the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).



examples of how these categories may be defined at the local level (paragraph 400.18 A1); and

- b. Anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of PIEs, with examples of such categories (e.g., pension funds and collective investment vehicles) (paragraph 400.18 A2).
- (e) Guidance in paragraph 400.19 A1, that encourages firms to determine if any additional entities should be treated as PIEs for purposes of Part 4A of the IESBA Code, with factors for firms to consider in making this determination.
- (f) Replacing the term “listed entity” in the IESBA Code Glossary with a newly defined term, “publicly traded entity.” Publicly traded entity is one of the mandatory categories of entities included in the revised PIE definition.
- (g) Requirements in paragraphs R400.20–R400.21, for firms to publicly disclose when a firm has applied the independence requirements for PIEs in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders (i.e., the IESBA’s transparency requirement).

#### *IAASB’s Project on Listed Entity and PIE*

4. The IAASB leveraged the IESBA’s Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (the IESBA PIE ED) in exploring a project for revising the ISQMs and ISAs as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code. Considering this information gathering, in March 2022, the IAASB approved a [project proposal](#) to undertake a narrow scope project on listed entity and PIE.
5. The IESBA PIE ED incorporated specific questions that discussed various matters that were also relevant to the IAASB standards, particularly the ISQMs and ISAs, and incorporated specific questions to seek preliminary views from the IAASB’s stakeholders on those matters. This included specific questions about:<sup>3</sup>
  - (a) Whether the overarching objective established by the IESBA could be used by both the IESBA and the IAASB in establishing differential requirements for certain entities, including how this might be approached for the ISQMs and ISAs.
  - (b) Seeking feedback about the proposed case-by-case approach for determining whether differential requirements already established within the IAASB standards should be applied only to listed entities or might be more broadly applied to all categories of PIEs.
  - (c) The appropriate mechanism that may be used to publicly disclose when a firm has applied the independence requirements for PIEs. This included a question about whether it would be appropriate to make such disclosure within the auditor’s report and if so, how might this be approached in the auditor’s report.

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<sup>3</sup> The matters for the IESBA consideration included questions 1-14 of the IESBA PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the IESBA PIE ED was specific to the IAASB.

6. The following are the project objectives that support the public interest, with the project being undertaken as two Tracks:

Track 1:

- Determine whether the auditor’s report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements (i.e., to operationalize the IESBA’s transparency requirement).

Track 2:

- Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
- Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate.
- Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.

7. Track 1 of the project was concluded in June 2023, when the IAASB approved the narrow scope amendments to ISA 700 (Revised)<sup>4</sup> and ISA 260 (Revised)<sup>5</sup> to operationalize the IESBA’s transparency requirement.<sup>6</sup> This ED deals with the proposed amendments to the ISQMs, ISAs and ISRE 2400 (Revised) in undertaking Track 2 of the IAASB’s narrow scope project on listed entity and PIE.

### **Coordination Between the IESBA and IAASB**

8. The IESBA and the IAASB recognize the importance of coordination between the two Boards to achieve convergence, to the greatest extent possible, between the concepts of PIE and “publicly traded entity” in the IESBA’s and the IAASB’s standards. Such convergence enables the interoperability of the proposals made by each Board.
9. Accordingly, throughout the IAASB’s and the IESBA’s projects, there has been extensive coordination between the two Boards through Staff coordination, the participation of the IAASB and the IESBA correspondent members in the respective Boards’ Task Forces, plenary discussions involving representatives of the IAASB and the IESBA at the respective Boards’ meetings, incorporating specific questions to seek views from stakeholders in the IAASB and the IESBA exposure drafts, joint IAASB-IESBA Consultative Advisory Group discussions and joint IAASB-IESBA Jurisdictional / National Standard Setter (NSS) sessions.

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<sup>4</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>5</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>6</sup> See the [Final Pronouncement: Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#).

## Coordination with Other IAASB Task Forces

10. In developing the ED, consideration was given to the following matters that are being contemplated by other IAASB projects:
- Audits of Less Complex Entities (LCEs): The IAASB reflected on the impact that the adoption of the PIE definition would have on the Authority of the ISA for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). This included consideration of how not to create complexity for jurisdictions when determining the scope of entities for which the use of the ISA for LCE is prohibited.
  - Fraud and Going Concern Projects: The IAASB recognizes that further consideration may be necessary for certain proposals contemplated by the fraud and going concern projects that include establishing differential requirements that currently apply to listed entities. Such matters will be considered once the IAASB's deliberations for Track 2 of the project have advanced post exposure and in parallel with the finalization of the proposed revised standards on fraud and going concern (see paragraphs 63-64). The IAASB is also mindful about aligning the possible effective date for this ED and the proposed revised standards on fraud and going concern given these projects are considering, among other proposed actions, possible changes to enhance transparency in the auditor's report (see paragraph 65).

## Section 1 Significant Matters

### Section 1-A – Public Interest Issues Addressed

11. In developing this ED, the IAASB considered the qualitative standard-setting characteristics set out in paragraph 31 of the project proposal and those included in the Public Interest Framework (PIF)<sup>7</sup> as criteria to assess the proposed standard's responsiveness to the public interest.
12. **Appendix 2** to this EM sets out a table that maps the proposed narrow scope revisions to the standard-setting actions included in the project proposal as the actions are directly related to the project objectives that support the public interest. **Appendix 2** to this EM also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address each proposed action.

### Section 1-B – Objective for Establishing Differential Requirements for PIEs

13. Respondents to relevant IAASB matters addressed in the IESBA PIE ED supported the use of a common objective as an overarching principle for establishing differential requirements for certain entities across the IAASB standards and the IESBA Code.
14. Considering this support, the IAASB agreed to adopt the objective in paragraph 400.8 of the IESBA PIE Revisions into ISQM 1<sup>8</sup> and ISA 200,<sup>9</sup> given these standards prescribe the authority for all ISQMs and ISAs respectively (see proposed paragraph A29A of ISQM 1 and paragraph A81A of ISA 200 in

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<sup>7</sup> See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#) (pages 22–23 of the PIF's section on "What qualitative characteristics should the standards exhibit?").

<sup>8</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

<sup>9</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

the ED). In doing so, the IAASB adapted the objective with minimal tailoring, so it remains appropriate in the context of the ISQMs and ISAs.<sup>10</sup>

15. Respondents to the IESBA PIE ED also commented that the purpose for establishing differential requirements in the IAASB standards may include a different rationale than the “*independence of a firm*” as stated in paragraph 400.10 of the IESBA PIE Revisions.
16. The IAASB proposes that for the ISQMs and ISAs, the purpose of the differential requirements is to meet “the heightened expectations of stakeholders regarding *the audit engagement*” (see proposed paragraph A29B of ISQM 1 and paragraph A81B of ISA 200 in the ED). The IAASB believes this is appropriate because the differential requirements in the ISQMs and ISAs include more than one rationale and address broader matters than auditor independence, including:
  - Establishing policies or procedures by the firm that address engagement quality reviews.<sup>11</sup>
  - Providing transparency to intended users about aspects of the audit (e.g., auditor independence, communicating key audit matters (KAM), the name of the engagement partner and providing transparency about other information).<sup>12</sup>
  - Communicating to those charged with governance (TCWG) to assist them in fulfilling their responsibility to oversee the financial reporting process (e.g., communicating about the system of quality management and auditor independence).<sup>13</sup>
17. The IAASB acknowledges that ISQM 1 applies to all engagements performed under the IAASB standards, including the ISA for LCE, reviews of financial statements in accordance with International Standards on Review Engagements (ISREs), and other assurance or related services engagements in accordance with International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs). However, the ISREs, ISAEs and ISRSs standards do not presently include differential requirements,<sup>14</sup> and as such, the focus on the *audit engagement* in ISQM 1 would not at this time be inconsistent with the overall body of standards. Similarly, the ISA for LCE does not include differential requirements, and its authority prohibits application for listed entities or entities with public interest characteristics.
18. In addition, the IAASB considered, but decided against providing an objective that would be specific about the nature of the differential requirements described in paragraph 16, because of:
  - The desire for *consistency, coherence, and conciseness* across the ISQMs and ISAs. Providing more specificity would necessitate different explanations in the ISQMs and the ISAs

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<sup>10</sup> This included providing a reference to the ISQMs and ISAs in place of the relevant Part of the IESBA Code and removing the reference to “application material” given these paragraphs already form part of the application and other explanatory material to the authority section of ISQM 1 and ISA 200.

<sup>11</sup> ISQM 1, paragraph 34(f)

<sup>12</sup> ISA 700 (Revised), paragraphs 30–31, 40(b)–(c), 46, 50(l), ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, paragraph 5 and ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraphs 21–22(b)

<sup>13</sup> ISQM 1, paragraph 34(e) and ISA 260 (Revised), paragraph 17

<sup>14</sup> The differential requirements in the ISQMs and ISAs apply only to listed entities. The proposed narrow scope amendments to ISRE 2400 (Revised) discussed in **Section 1-E** of the EM include a proposal for a conditional requirement that applies to certain entities specified in the relevant ethical requirements, which does not constitute a differential requirement established by the IAASB.

given the nature of the differential requirements across those standards are different. This could lead to an inconsistent approach across the overall body of standards and may inadvertently create complexity across the differential requirements in the IAASB standards.

- The need for *relevance* through recognizing and responding to emerging public interest issues and evolving user needs over time. Providing more specificity could inadvertently predetermine the scope of matters for which differential requirements are appropriate and restrict flexibility for circumstances when differential requirements are necessary in the ISQMs and ISAs as part of future standard-setting.

### Section 1-C – Definitions of PIE and “Publicly Traded Entity”

19. Respondents to relevant IAASB matters addressed in the IESBA PIE ED encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards’ standards, and in doing so supported alignment in the types of entities to which differential requirements apply.
20. Considering this support, the IAASB is proposing to adopt the definitions of PIE and “publicly traded entity” in the Definitions section of ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED). In addition, upon finalization of the approved pronouncement for Track 2, these definitions will become accessible through the IAASB Glossary of Terms,<sup>15</sup> to assist with common and consistent interpretation (including for translations).
21. The definitions of PIE and “publicly traded entity” were exposed for public comment by IESBA in their project on the definitions of listed entity and PIE. Therefore, these changes have undergone proper due process for the Standard Setting Boards under the International Foundation for Ethics and Audit.

#### *Definition of PIE*

22. The definition of PIE includes a broadly defined list of mandatory, high-level PIE categories, shown in the box below.

Mandatory, high-level PIE categories:

- (i) A publicly traded entity;
- (ii) An entity one of whose main functions is to take deposits from the public;
- (iii) An entity one of whose main functions is to provide insurance to the public; or
- (iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity.<sup>16</sup>

<sup>15</sup> The IAASB Glossary of Terms is a non-authoritative document. Paragraph A67 of ISA 200 explains that the IAASB Glossary of Terms contains a complete listing of terms defined in the IAASB standards and includes descriptions of other terms found in the IAASB standards to assist in common and consistent interpretation and translation.

<sup>16</sup> Some changes were applied to category (iv) in incorporating the IESBA PIE Revisions which were necessary given the differences in the drafting conventions among the respective Boards’ standards. For example, the term “professional standards” was replaced with “professional requirements” because unlike the IESBA Code, the term “professional standards” has a defined meaning for the purpose of the ISQMs and ISAs. In addition, the reference to the purpose described in paragraph 400.10 of the

23. When developing the approach to revise the PIE definition, the IESBA recognized the difficulty of establishing a concise definition that can be universally adopted at the global level because of the variety of circumstances that exist across jurisdictions. Accordingly, under the proposed approach of the IESBA Code, the relevant local bodies (such as regulators or oversight bodies, NSS or professional accountancy bodies, as appropriate in a jurisdiction) play a pivotal role in establishing the local PIE definition through refining the PIE categories, setting size criteria and adding new types of entities or exempting particular entities. The IESBA noted that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the IESBA Code's overarching objective. The IESBA also observed that a number of relevant local bodies have already done so by taking into consideration issues, concerns and nuances specific to the local environment and how these impact the public interest in their jurisdictions.
24. The IAASB believes that it is essential to incorporate in the ISQMs and ISAs the entire approach to scoping PIEs as contemplated in the IESBA Code because convergence is part of the IAASB's project objectives (see paragraph 6) and because all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction. The IAASB has therefore proposed to adopt the definition of PIE and include a requirement with supporting application material to treat an entity as a PIE in accordance with the definition, based on the approach in the IESBA Code (see proposed paragraphs 16(p)A, 18A, A29D–A29F of ISQM 1 and paragraphs 13(l)A, 23A, A81D–A81F of ISA 200 in the ED). In addition, to recognize the primary role of the firm in establishing policies or procedures about entities that meet the definition of PIE and other entities to be treated as PIEs, paragraph 23A of ISA 200 in the ED was supplemented to require the auditor to follow the firm related policies or procedures.

*Definition of “Publicly Traded Entity” in Place of Listed Entity*

25. The IESBA PIE Revisions included replacing the definition of “listed entity” with a newly defined term – “publicly traded entity.” “Publicly traded entity” is also one of the mandatory categories of entities included in the PIE definition. As shown in the box below, the defined term “publicly traded entity” encapsulates the term listed entity as an example defined by relevant securities law or regulation (rather than a standalone definition). On this basis a listed entity as defined by relevant securities law or regulation in the jurisdiction will continue to meet the definition of a “publicly traded entity” provided the other criteria of the definition are met and subject to any refinements to this category by relevant local bodies (e.g., making reference to specific public markets for trading securities).

Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

26. The table below includes examples that have been sourced from the IESBA PIE ED and the Basis for Conclusions, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), illustrating how replacing the definition of “listed entity” with “publicly traded entity” would impact

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IESBA PIE Revisions was not cross-referenced given it forms part of the application material of the ISQM 1 and ISA 200. Instead, the phrase “related to the significance of the public interest in the financial condition of the entity” was added to the text of category (iv).

entities. This is relevant when considering how the scope of entities to which the extant differential requirements in the ISQMs and ISAs would change:

<i>Impact on Entities</i>	<i>Description</i>	<i>Example</i>
<b>The change would result in the entity being scoped in</b>	Entities issuing and trading financial instruments other than shares, stock or debt as currently specified in the extant definition of “listed entity.”	▶ Entities issuing and trading other types of instruments such as warrants or hybrid securities.
	Entities trading financial instruments in less regulated markets.	▶ Entities trading on second-tier markets or over-the-counter trading platforms.
<b>The change would result in the entity being scoped out</b>	Entities whose financial instruments might be listed but are not intended to be traded or are not freely transferable.	▶ Groups where the relevant instruments are held entirely intra-group.
	Entities trading through a market mechanism that is not publicly accessible or when there is no facilitated trading platform such as an auction-based exchange or electronic exchange.	▶ Privately negotiated agreements (with or without the assistance of a broker).

### Section 1-D – Differential Requirements in the ISQMs and ISAs

27. The IAASB previously explored, through its standard-setting projects, extending the applicability of its differential requirements for listed entities in the ISQMs and ISAs to apply more broadly to other entities that exhibit public interest or public accountability characteristics. This was largely driven by an increased emphasis by intended users regarding the performance of audit engagements on this broader group of entities and stakeholder demands for the requirements to be consistently applied to certain types of entities that may not be listed, but for which the requirements would be appropriate (e.g., for financial institutions including banks and insurance companies).
28. The IAASB is also aware of ongoing legislative developments in various jurisdictions who have already extended, or are considering extending, the applicability of the differential requirements for listed entities in their national equivalent ISQMs and ISAs to apply to PIEs.<sup>17</sup>
29. The IAASB decided not to expand the differential requirements beyond listed entities in the ISQMs and ISAs in previous public consultations, deliberations, and discussions, mostly due to:

<sup>17</sup> For example, the United Kingdom, European Union, Japan and New Zealand (for reporting entities considered to have a higher level of public accountability) have extended in full or in part the differential requirements to apply to PIEs. In addition, several jurisdictions, such as Australia, Canada, and South Africa, are currently assessing, or plan to assess in the near future, the extension of the applicability of the differential requirements in the ISQMs and ISAs to apply to entities other than listed entities.

- The lack of a global baseline for the definition of PIE that could be consistently applied across jurisdictions.
  - The unintended consequences of the requirements applying to smaller entities that could be scoped into the definition of a PIE (e.g., due to regulations or legislation) and for which it may be impracticable or overly burdensome to apply the requirements in such cases.
30. In developing the definition, the IESBA acknowledged the challenge described in paragraph 29 of inadvertently scoping in entities where the public interest in the financial condition of those entities is not significant. In response, the IESBA has:
- Provided for law, regulation, or professional standards to more explicitly define the mandatory categories of PIEs (see paragraph 400.18 A1 of the IESBA PIE Revisions) by, for example, referring to specific public markets for trading securities, referring to law or regulation containing definitions of entities, making exemptions or setting size criteria.
  - Set a requirement for firms to apply these more explicit definitions established by law, regulation, or professional standards (see paragraph R400.18 of the IESBA PIE Revisions).
31. Accordingly, the revised approach to PIEs in the IESBA Code places a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction (e.g., determining whether smaller entities should be excluded from any or all of the categories of PIEs and what threshold should be set for such exclusion taking into account the need to balance the public interest and the burden of additional requirements imposed on the auditors of PIEs). In addition, the IESBA formed the view that establishing an overarching objective and expanding the PIE categories in the IESBA Code should bring some level of global consistency to the types of entities that should be treated as PIEs (i.e., a global baseline).<sup>18</sup>
32. Given that relevant local bodies play an essential role in the proposed approach when establishing national PIE definitions, the IESBA has also committed to an outreach and rollout program to assist developing or revising the definitions of PIE at the local level based on the IESBA PIE Revisions.<sup>19</sup>
33. Accordingly, the IAASB believes that the revised approach to scoping PIEs in the IESBA Code addresses previous concerns raised from public consultations about extending the differential requirements in the ISQMs and ISAs to apply to PIEs.

#### *Case-by-Case Analysis*

34. Respondents to relevant IAASB matters addressed in the IESBA PIE ED broadly supported that the IAASB should undertake a case-by-case approach to determine whether the differential requirements established in the IAASB standards that currently apply only to listed entities should be revised to apply more broadly to all categories of PIEs. In doing so, respondents commented that the approach undertaken should remain sufficiently flexible (i.e., avoid a “one-size fits all” approach) and that it should take into consideration the public interest factors in the context of the individual objectives of the standards where differential requirements exist. Respondents also supported a balanced approach to avoid creating complexity through introducing too many differential requirements in the IAASB standards.

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<sup>18</sup> See the IESBA’s Basis for Conclusions, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

<sup>19</sup> See the [IESBA’s Rollout initiative](#), including non-authoritative materials to support the adoption and effective implementation of the IESBA PIE Revisions: the [IESBA’s Database of PIE Definitions by Jurisdiction](#) and the IESBA Questions and Answers, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).



35. Given this support, the IAASB undertook a case-by-case analysis of extant differential requirements in the ISQMs and ISAs, which included consideration of:
- The purpose of the extant differential requirements to validate that the public interest factors which drive those requirements is consistent with the objective described in **Section 1-B**.
  - The related application material to the differential requirements in order to identify whether any unintended consequences exist, such as matters around jurisdictional considerations or practicality and operability for audits of financial statements of entities other than PIEs.
  - Whether there was indication of support for extending the applicability of the differential requirements to apply to PIEs or more broadly from previous IAASB public consultations, deliberations and decisions at the time when the extant differential requirements were established.
  - Other relevant IAASB information gathering.<sup>20</sup>

A summary of the outcome from the case-by-case analysis is provided in **Appendix 1**.

36. The IAASB's key observation regarding the case-by-case analysis is that the public interest factors which drive the extant differential requirements in the ISQMs and ISAs support enhancing stakeholders' confidence in the audit and the audited financial statements of listed entities. This aligns with the purpose stated in the objective for establishing differential requirements more broadly for PIEs discussed in **Section 1-B**. Consequently, it would be *consistent* with the objective if they were extended to apply to PIEs. In addition, the feedback from other IAASB information gathering indicated broad support from stakeholders for the applicability of the extant differential requirements in the ISQMs and ISAs to apply to PIEs, with one notable exception. Extending the reporting requirements in paragraphs 21–22(b) of ISA 720 (Revised) to PIEs was not supported, because respondents found the practical difficulties associated with identifying and considering the other information received after the date of the auditor's report to outweigh the public interest benefits of doing so (see paragraphs 47-51).
37. Except for ISA 720 (Revised), the IAASB believes that extending the extant differential requirements in the ISQMs and ISAs to PIEs, as summarized in **Appendix 1**, would support the public interest as this would:
- Be responsive to stakeholder feedback from previous IAASB information gathering and public consultations, including capturing certain financial institutions such as banks and insurance companies for which stakeholders have indicated it would be appropriate to apply the differential requirements for listed entities in the ISQMs and ISAs.
  - Promote more consistency among jurisdictions globally when applying the ISQMs and ISAs, given that some jurisdictions have already extended (or are considering extending) the applicability of the differential requirements to apply to PIEs in their national equivalent auditing standards.
  - Result in alignment of key concepts and definitions across the IAASB and the IESBA standards and enable less complexity related to the types of entities to which the differential requirements in the respective standards apply.

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<sup>20</sup> For example, the post-implementation review (PIR) of the Auditor Reporting Standards and, where appropriate, how NSS have addressed this issue at jurisdictional levels.

38. The table below references, by affected ISQM and ISA, the paragraphs proposed in the ED for amending the relevant extant differential requirements. Paragraphs 39-51 below provide additional explanation of the proposed changes relating to engagements subject to engagement quality review (ISQM 1), auditor independence (ISA 260 (Revised)) and communicating KAM (ISA 701), as well as for proposing changes in relation to transparency about other information (ISA 720 (Revised)).

<i>Description</i>	<i>Paragraph(s) in the ED</i>
Engagements Subject to an Engagement Quality Review	ISQM 1, paragraph 34(f)
Communication with TCWG About the System of Quality Management	ISQM 1, paragraph 34(e)
Auditor Independence	ISA 260 (Revised), paragraphs 17, 17A; ISA 700 (Revised), paragraph 40(b)
Communicating KAM	ISA 700 (Revised), paragraphs 30–31, 40(c); ISA 701, paragraph 5
Name of the Engagement Partner	ISA 700 (Revised), paragraphs 46, 50(l)
Transparency About the Other Information	ISA 720 (Revised), paragraphs 21–22(b)

#### Engagements Subject to an Engagement Quality Review

39. In addition to the rationale set out in paragraph 37 above for extending the applicability of the extant differential requirement for engagement quality reviews, the IAASB also considered that entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to engagement quality reviews given the risk-based approach in ISQM 1 to determining engagements subject to an engagement quality review.
40. In determining the proposed revisions, the IAASB also considered that ISQM 1 became effective as of December 15, 2022, and that further revisions to the standard in short succession would not be optimal or practical for stakeholder constituencies. However, given the possible effective date of December 2026 for the proposed narrow scope amendments contemplated under Track 2 of the project (see paragraph 65 below), the IAASB believes that there is a sufficient period of stability provided to support stakeholder implementation efforts in relation to ISQM 1. In addition, given that the IESBA PIE Revisions become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, this would also benefit stakeholder constituencies to have already considered and implemented the definition of PIE in their national jurisdictions.

#### Auditor Independence

41. The IAASB is proposing to amend the applicability of the extant differential requirement in paragraph 17 of ISA 260 (Revised) by bifurcating the requirement as follows:

- A requirement that would apply to audits of financial statements of all entities to communicate with TCWG a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.
  - A requirement that would apply only to PIEs to communicate with TCWG a statement that would address the matters set out in subparagraphs 17(i)–(ii) of extant ISA 260 (Revised) (i.e., in accordance with the rationale set out in paragraph 37 above for differential requirements that apply to PIEs).
42. In proposing that paragraph 17 of ISA 260 (Revised) in the ED should apply to audits of financial statements of all entities, the IAASB considered:
- The requirement in paragraph 28(c) of ISA 700 (Revised) that requires communication about compliance with independence requirements in the auditor’s report for all audit engagements. It is therefore illogical and inconsistent that the auditor would communicate with TCWG about compliance with independence requirements only if the entity is a listed entity (or PIE).
  - The interrelationship with the new requirement in paragraph 16A of ISA 260 (Revised), approved under Track 1 of the project, that applies to audits of all entities, and requires the communication with TCWG about the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement.
43. In coordinating with the IESBA, it was noted that the extant requirement in paragraph 17(a) of ISA 260 (Revised) is not consistent with recently revised requirements to communicate with TCWG in the IESBA Code.<sup>21</sup> The IAASB considered whether ISA 260 (Revised) should be updated to better align with the IESBA Code, however believes that doing so is duplicative, and creates complexities and confusion if the requirements in the IAASB standards do not fully address all requirements in the IESBA Code dealing with communication with TCWG. As such, the IAASB proposes removing the explicit requirement to communicate fee-related matters in paragraph 17(a) of ISA 260 (Revised), and instead refer to the IESBA Code in the application material to draw attention to the fact that the IESBA Code also contains requirements regarding communication with TCWG (see proposed paragraph A29A in ISA 260 (Revised) of the ED).
44. The IAASB believes this approach is appropriate because it is consistent with the objective of the listed entity and PIE project to achieve to the greatest extent possible convergence between the key concepts in the IESBA Code and the IAASB standards so as to maintain their interoperability. In addition, the IAASB believes doing so would not weaken the ISAs because the auditor is already required to comply with relevant ethical requirements in accordance with paragraph 14 of ISA 200. Also, this would accommodate a more future-proof approach when there are changes to the relevant requirements of the IESBA Code given that the IESBA Code is better placed to robustly address any need to communicate matters to TCWG regarding ethics and independence. Furthermore, revising the ISAs to replicate requirements in the IESBA Code does not promote a framework neutral approach to ethical requirements.

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<sup>21</sup> For example, ISA 260 (Revised) requires communication of “*all relationships and other matters between the firm, network firms, and the entity.*” This would not include all direct financial interests or material indirect financial interests in the audit client as required by paragraph R510.4 of the IESBA Code. Similarly, the IESBA has introduced new requirements to communicate with TCWG in recent projects such as the [Revisions to the Non-Assurance Service Provisions of the Code](#) and the [Revisions to the Fee-related Provisions of the Code](#).

45. As a consequence of the proposals discussed in paragraph 41 above to bifurcate the extant requirement in paragraph 17 of ISA 260 (Revised), the IAASB has also proposed to align the requirement in paragraph 40(b) of ISA 700 (Revised) in the ED. In addition, alignment changes have been proposed to the illustrative auditor's reports that are affected.

#### Communicating KAM

46. In addition to the rationale set out in paragraph 37 above for extending the applicability of the extant differential requirement for communicating KAM, the IAASB also considered:
- The support from the Auditor Reporting Post Implementation Review (PIR) Stakeholder Survey indicating respondents' preference for mandatory communication of KAM for PIEs. While there was majority support from all stakeholder constituencies, a substantially higher percentage of respondents who responded to the PIR Stakeholder Survey (above 80%) was indicated by investors and regulators relative to other respondent groups.
  - The guidance in paragraph A59 of ISA 701 that draws attention that there may be certain limited circumstances (e.g., for a listed entity that has very limited operations) when there are no matters that required significant auditor attention. In such circumstances, the auditor would determine that there is no KAM.

#### Transparency About Other Information

47. The IAASB has decided not to amend the differential requirements for listed entities in paragraphs 21–22(b) of ISA 720 (Revised) to apply to PIEs.
48. In reaching its view, the IAASB considered the findings from the Auditor Reporting PIR that noted challenges and practical difficulties which arose in various jurisdictions with the implementation of ISA 720 (Revised), including:
- Identifying which other information is included in the annual report and therefore affecting the scope of the auditor's responsibilities to read and consider the other information.
  - Practical issues that arise when the other information is not available at the time the auditor's report is signed. Respondents' views included that for those jurisdictions where the other information is usually received after the auditor's report is signed and for entities other than listed entities, the practical difficulties encountered with considering the other information outweighed the public interest benefits.
49. On balance, the IAASB believes that it is in the public interest not to extend the differential requirements in ISA 720 (Revised) to PIEs as this may exacerbate the identified issues. However, the IAASB notes that the public interest factors that drive these requirements include to provide transparency to intended users about the other information and the auditor's work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared. Because these factors align with the objective for establishing differential requirements for PIEs discussed in **Section 1-B**, the IAASB intends to defer a discussion on extending these requirements to apply to PIEs until a comprehensive revision of the standard is undertaken based on future IAASB work plan decisions.

50. Until such time that a comprehensive revision of ISA 720 (Revised) is undertaken, the IAASB has proposed to amend the applicability of the differential requirements for listed entity to apply to “publicly traded entity.” In reaching its view, the IAASB considered that it is necessary to reduce complexity about the scope of the standard, given that listed entity would no longer be a defined term for the ISAs (see paragraph 25) and because in certain jurisdictions law or regulation may not define a listed entity. In addition, the IAASB considered the impact of the change to the scope of entities should a requirement apply to listed entities compared to publicly traded entities (see paragraph 26). The IAASB formed the view that for ISA 720 (Revised) it would be appropriate to provide transparency to intended users about other information for those entities whose financial instruments are transferrable and traded through a publicly accessible market mechanism as envisioned by the “publicly traded entity” definition.
51. Certain changes to the illustrative auditor’s reports in the Appendix of ISA 720 (Revised) were also made to maintain the *coherence* with the proposed extensions for the differential requirements for listed entities in ISA 700 (Revised) and ISA 701 to apply to PIEs.

### Section 1-E – Proposed Revisions to ISRE 2400 (Revised)

52. As discussed in paragraph 7, in June 2023, under Track 1 of the project, the IAASB approved narrow scope amendments to ISA 700 (Revised) that supported operationalizing the IESBA’s transparency requirement. This included amending paragraph 28(c) of ISA 700 (Revised) to include a requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied, such as PIEs in the IESBA Code. If this is the case, then the auditor is required to indicate in the auditor’s report that the relevant ethical requirements for independence for those entities were applied.<sup>22</sup>
53. Given that Part 4A of the IESBA Code also applies to review engagements,<sup>23</sup> the IAASB is proposing amending ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, in order to maintain the *coherence* and interoperability with the IESBA Code. In doing so, the IAASB believes that pursuing a *consistent* approach to the practitioner’s review report with the revisions to the auditor’s report would support the public interest because it would avoid confusion for intended users that may arise if the disclosure of independence requirements for audit and review engagements are misaligned.
54. Paragraph 86(j) of extant ISRE 2400 (Revised) requires the practitioner to include a reference in the practitioner’s report of the obligation to comply with relevant ethical requirements. However, the practitioner is not required to provide a statement similar to the requirement in paragraph 28(c) of ISA 700 (Revised), which requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. In addition, ISRE 2400 (Revised) is not aligned with the

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<sup>22</sup> See the [Final Pronouncement: Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#).

<sup>23</sup> Paragraph 400.2 of the IESBA Code explains that Part 4A (which includes the transparency requirement in paragraphs R400.20–R400.21 of the IESBA PIE Revisions) applies to both audit and review engagements unless otherwise stated, and that the terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

changes to the auditor's report introduced as part of the IAASB's auditor reporting project,<sup>24</sup> such as the structure of the report and including new elements introduced to the auditor's report.

55. The proposed amendments to paragraph 86(j)A of ISRE 2400 (Revised) in the ED include a new requirement that applies only when the relevant ethical requirements require public disclosure that specific independence requirements for reviews of financial statements of certain entities were applied, such as PIEs in the IESBA Code. If this is the case, then the practitioner is required to include a statement in the practitioner's report that identifies the jurisdiction of origin of the relevant ethical requirements or refers to the IESBA Code and indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements for those entities.
56. Proposed paragraph A137A of ISRE 2400 (Revised) in the ED includes new application material in support of the requirement. Among other matters, the application material refers to the IESBA Code as an example of relevant ethical requirements that have a transparency requirement and provides an illustration of the disclosure in the practitioner's report when the IESBA Code comprises all the relevant ethical requirements that apply to the review engagement.
57. The IAASB is also aware that reviews of PIEs' historical financial statements under ISRE 2400 (Revised) are rare in practice,<sup>25</sup> and it is more common among jurisdictions that an interim review engagement would be performed by the independent auditor for listed entities or PIEs under ISRE 2410.<sup>26</sup> However, in line with the actions discussed in the project proposal, the IAASB is not proposing amendments to ISRE 2410 at this time given that ISRE 2410 is still in pre-clarity format and has not been subject to conforming and consequential amendments arising from other IAASB projects in recent years to avoid giving the impression that this standard is up to date. The IAASB also acknowledges that any resulting revisions to ISRE 2410 would need to be part of a broader project to revise this standard that would be determined as part of the IAASB's future work plan decisions.

## Section 1-F – Other Matters

### *Central List of Factors in Evaluating the Extent of Public Interest of an Entity*

58. The application material to the current differential requirements for listed entities in the ISQMs and ISAs includes various examples that illustrate:
  - The types of entities that may exhibit public interest or public accountability characteristics for which it may also be appropriate to apply a certain differential requirement.<sup>27</sup>
  - Circumstances when law or regulation may require the application of a differential requirement to entities other than listed entities.<sup>28</sup>

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<sup>24</sup> As part of the [auditor reporting project](#), completed by the IAASB in September 2014, the IAASB determined not to make revisions to assurance reports for other engagements (including for reviews of financial statements) to include elements similar to those in the auditor's report on an audit of financial statements.

<sup>25</sup> Form its information gathering with NSS, only one jurisdiction (i.e., South Africa) noted that there is a regulatory reporting requirement in accordance with ISRE 2400 (Revised) for banks which would qualify as PIEs under the revised PIE definition.

<sup>26</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>27</sup> For example, see paragraph A32 of ISA 260 (Revised).

<sup>28</sup> For example, see paragraph A40 of ISA 700 (Revised).

59. The IAASB is proposing a central list of factors, based on paragraphs 400.9 and 400.18 A2 of the IESBA PIE Revisions, incorporated in ISQM 1 and ISA 200 to support consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs (see proposed paragraphs A29C, A29G of ISQM 1 and paragraphs A81C, A81G of ISA 200 in the ED). The IAASB believes this would drive *consistency* and reduce the duplicative nature of this application material across the ISQMs and ISAs.
60. In incorporating the factors, the IAASB considered the commonality between the factors in the IESBA Code and the existing application material in the ISQMs and ISAs that describes other entities to which the differential requirements may be relevant. In addition, the IAASB notes that these factors were exposed for public comment by the IESBA in their project on the definitions of listed entity and PIE and have therefore undergone a proper due process.
61. The central list of factors is not exhaustive, which is consistent with the approach of the IESBA Code. Law, regulation, or relevant local bodies may identify additional entities that are PIEs, or a firm may identify additional entities to which the firm applies a requirement that is applicable to audits of PIEs. In addition, to drive a consistent approach when determining to treat other entities as a PIE between the IESBA Code and the ISQMs / ISAs, the IAASB emphasized that a relevant consideration when making such determination is whether the firm / auditor treated an entity as a PIE when applying relevant ethical requirements, including those related to independence.

#### *Alignment Changes*

62. Because of the proposals in this ED, various alignment changes were necessary for the introductory and application material in the ISQMs and ISAs. For example, in the illustrative auditor's reports included in the Appendices of the 500, 700 and 800 series of ISAs, the term "listed entity" (or "entity other than listed entity") was replaced with "public interest entity," "entity other than a public interest entity" or "publicly traded entity." Also, when applicable, the application material that relates to a differential requirement(s) has been updated as a result of changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIEs.

#### *Differential Requirements Relating to the Fraud and Going Concern Projects*

63. As discussed in paragraph 10, in addressing the project objectives for enhanced transparency, the IAASB's fraud and going concern projects are considering establishing differential requirements that apply to listed entities which have implications to the auditor's report, as follows:
  - For the fraud project, when applying ISA 701, communicating in the KAM section of the auditor's report, KAM related to fraud.
  - For the going concern project, describing in a separate section of the auditor's report how the auditor evaluated management's assessment of going concern when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (both when no material uncertainty exists or when a material uncertainty exists).
64. The public consultation for ED-570<sup>29</sup> closed on August 24, 2023. ED-570 included a specific question for respondents (i.e., question 14) seeking views from respondents to inform the IAASB's

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<sup>29</sup> See Exposure Draft (ED-570): [Proposed International Standard on Auditing 570 \(Revised 202X\), Going Concern and Proposed Conforming and Consequential Amendments to Other ISAs](#).

consideration about extending the applicability of the proposed differential requirements for listed entities to apply to audits of financial statements of entities other than listed entities. In addition, as part of the public consultation for fraud,<sup>30</sup> the IAASB intends to seek views from respondents about extending the applicability of the differential requirements for listed entities to communicate KAM related to fraud. As the deliberations for this ED advance post exposure, and in parallel with the finalization of the proposed revised standards for fraud and going concern, the IAASB also intends to further consider extending the applicability of the differential requirements for listed entities proposed for fraud and going concern.

#### *Effective Date*

65. The IAASB anticipates that the final pronouncement for Track 2 of the listed entity and PIE project would be approved in December 2024. Recognizing that it is preferred to coordinate effective dates with the fraud and going concern projects that are also considering actions that may result in revisions that impact auditor reports, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18-24 months after the PIOB's process of certification of the final narrow scope amendments for Track 2.<sup>31</sup> The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the standard, for national adoption processes to occur, and for practitioners to update templates and associated internal materials.

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<sup>30</sup> The public consultation for proposed ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, is expected to be published in quarter 1 of 2024 for a 120-day public comment period.

<sup>31</sup> After approval by the IAASB, the PIOB will consider its public certification of an approved new or revised standard(s) to confirm the PIOB's oversight of the standard-setting process throughout the full development cycle, that the standard was developed in a manner consistent with agreed due process and that the standard is responsive to the public interest, in accordance with the Public Interest Framework.



## Section 2 Questions for Respondents

Respondents are asked to respond to the questions below using the [Response Template](#) as explained in the **Request for Comments** on page 3 of this EM.

Specific Questions for Respondents	Sections or paragraphs in this EM for reference
<i>Objective for Establishing Differential Requirements for PIEs</i>	
<p>1. Do you agree with establishing the overarching objective and purpose for differential requirements for PIEs in the ISQMs and ISAs as proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?</p>	Section 1-B, paragraphs 13–18
<i>Definitions of PIE and “Publicly Traded Entity”</i>	
<p>2. Do you agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?</p>	Section 1-C, paragraphs 19–26
<i>Differential Requirements in the ISQMs and ISAs</i>	
<p>3. Do you agree with the IAASB’s proposals for extending the extant differential requirements in the ISQMs and ISAs to apply to PIEs?</p> <p>If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?</p> <p><b>Please answer these questions separately for each of the relevant differential requirements, as follows</b> (references are to the proposed paragraphs in the ED):</p> <p>3A. ISQM 1, paragraph 34(f) – engagement quality reviews.</p> <p>3B. ISQM 1, paragraph 34(e) – communication with TCWG about the firm’s system of quality management.</p> <p>3C. ISA 260 (Revised), paragraphs 17, 17A, and ISA 700 (Revised), paragraph 40(b) – communicating about auditor independence.</p> <p>3D. ISA 700 (Revised), paragraphs 30-31, 40(c), and ISA 701, paragraph 5 – communicating KAM.</p> <p>3E. ISA 700 (Revised), paragraph 46, 50(l) – name of the engagement partner.</p>	Section 1-D, paragraphs 27–46 Appendix 1

<b>Specific Questions for Respondents</b>	<b>Sections or paragraphs in this EM for reference</b>
4. Do you agree with the IAASB’s proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to “publicly traded entity”? If not, what do you propose and why?	Section 1-D, paragraphs 47–51 Appendix 1
<i>Proposed Revisions to ISRE 2400 (Revised)</i>	
5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner’s review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?	Section 1-E, paragraphs 52–57
<i>Other Matters</i>	
6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.	

### Request for General Comments

The IAASB is also seeking comments on the matters set out below:

7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.
8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after the PIOB’s process of certification of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

## Appendix 1 – Summary of the Case-by-Case Analysis of Extant Differential Requirements in the ISQMs and ISAs

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>32</sup>
<b>Engagements Subject to an Engagement Quality Review</b>			
ISQM 1, paragraph 34(f)	Providing <i>greater confidence</i> to the public in the consistent performance of quality engagements.	<i>ISQM 1, paragraph A134: A firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks. This could include entities that have public accountability characteristics (e.g., banks, insurance companies, pension funds), entities with high public profile or whose management/owners have high public profile and entities with large number and wide range of stakeholders.</i>	<b>Yes<sup>33</sup></b>  Support to apply for PIEs and for mandating for audit firms to carry out engagement quality reviews on internationally active banks and insurers.  Trends noted in jurisdictions to require an engagement quality review for PIEs.
<b>Communication with TCWG About the System of Quality Management</b>			
ISQM 1, paragraph 34(e)	Providing TCWG with <i>greater transparency and confidence</i> about how the firm's system of quality	<i>ISQM 1, paragraph A128: May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions</i>	<b>Yes<sup>34</sup></b>  Broad support for enhanced communication and transparency with stakeholders about how

<sup>32</sup> See [Agenda Item 6-B](#) discussed with the IAASB in December 2022, that provides background information including an overview of previous IAASB deliberations when certain differential requirements were established and sets out other relevant information gathering undertaken by the IAASB.

<sup>33</sup> See respondents feedback received in response to question 11 of the Exposure Draft, [Proposed International Standard on Quality Management 1 \(Previously International Standard on Quality Control 1\), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (February 2019). Also see the Basis for Conclusions, [ISQM 2, Engagement Quality Reviews](#) (December 2020) that provides a summary of the IAASB deliberations and decisions.

<sup>34</sup> See respondents feedback received in response to question 10 of the Exposure Draft, [Proposed International Standard on Quality Management 1 \(Previously International Standard on Quality Control 1\), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (February 2019). Also see the Basis for Conclusions, [ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (December 2020) that provides a summary of the IAASB deliberations and decisions.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>32</sup>
	management supports quality audit engagements to assist them in fulfilling their responsibility to oversee the financial reporting process.	<i>(banks, insurance companies and pension funds) and charities.</i>	the system of quality management supports quality engagements.
<b>Auditor Independence</b>			
ISA 260 (Revised), paragraph 17	Assisting TCWG in fulfilling their responsibility to oversee the financial reporting process and to <i>enhance their confidence</i> in the audit of the entity's financial statements.	<p><i>ISA 260 (Revised), paragraph A32:</i></p> <p><i>May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i></p> <p><i>ISA 260 (Revised), paragraph A32:</i></p> <p><i>May not be relevant for situations when all of TCWG are informed through their management activities of relevant facts or where the entity is owner-managed and the auditor's firm has little involvement with the entity beyond the financial statement audit.</i></p>	<p><b>Yes<sup>35</sup></b></p> <p>Support to be applied more broadly to all entities (including for PIEs).</p>
ISA 700 (Revised), paragraph 40(b)	Providing transparency to intended users about auditor independence so as to <i>enhance their confidence</i> in the audit of the entity's financial statements.		

<sup>35</sup> See respondents feedback to the Exposure Draft of proposed ISA 260 (Revised), *Communication with Those Charged with Governance* (March 2005), the Exposure Draft of proposed ISA 260 (Revised and Redrafted), *Communication with Those Charged with Governance* (October 2006), and the [Basis for Conclusion: ISA 260 \(Revised and Redrafted\)](#), [Communication with Those Charged with Governance](#) (December 2007) that provides a summary of the IAASB deliberations and decisions.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>32</sup>
<b>Communicating KAM</b>			
ISA 700 (Revised), paragraphs 30–31, 40(c)  ISA 701, paragraph 5	Enhance the communicative value of the auditor’s report by providing <i>greater transparency</i> about the audit that was performed.  <i>Increase intended user confidence</i> in the audit and the audited financial statements.	<i>ISA 700 (Revised), paragraphs A40–A41:</i>  <i>Law or regulation may require communication of KAM for other entities, e.g., PIEs.</i>  <i>May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i>	<p style="text-align: center;"><b>Yes</b><sup>36,37</sup></p> <p>Support for requiring the communication of KAM for PIEs and scoping in banks and insurance companies, regardless of whether they are listed entities.</p> <p>Majority preference from all stakeholder constituencies for mandatory communication of KAM for PIEs.</p> <p>Trends noted in jurisdictions to extend applicability of KAM to PIEs.</p>
<b>Name of the Engagement Partner</b>			
ISA 700 (Revised), paragraphs 46, 50(l)	Providing <i>transparency to intended users</i> about the engagement partner who is responsible for the audit to	<i>ISA 700 (Revised), paragraph A62:</i>  <i>Law, regulation, or national auditing standards may require that the auditor’s report include the name of the engagement partner responsible for audits of other entities than those of financial</i>	<p style="text-align: center;"><b>Yes</b><sup>38</sup></p> <p>Support from users, regulators and those jurisdictions in which the name of the engagement partner is required to be included</p>

<sup>36</sup> See respondents feedback to the Exposure Draft, [Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing \(ISAs\)](#) (July 2013) and the Basis for Conclusions: [Reporting on Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments](#) (January 2015), that provides a summary of the IAASB deliberations and decisions.

<sup>37</sup> See respondents feedback to the Auditor Reporting PIR [Stakeholder Survey](#) that included 148 responses from a broad range of stakeholders across 48 jurisdictions. In addition, [Agenda Item 3](#) discussed by the IAASB in February 2021, provides an overview of stakeholder feedback from the Auditor Reporting PIR Stakeholder Survey and other information-gathering activities and [Agenda Item 5](#) presented to the IAASB at its September 2021 meeting provides the recommendations to the Auditor Reporting PIR.

<sup>38</sup> See the [Invitation to Comment: Improving the Auditor’s Report](#) (June 2012) and the Basis for Conclusions: [Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments](#) (January 2015).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>32</sup>
	<i>enhance their confidence in the audit that has been performed.</i>	<p><i>statements of listed entities.</i></p> <p><i>Law, regulation, or national auditing standards may require including additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner (e.g., professional license number that is relevant to the jurisdiction where the auditor practices).</i></p>	in the auditor's report by law or regulation.
<b>Transparency About the Other Information</b>			
ISA 720 (Revised), paragraphs 21–22(b)	Providing <i>transparency to intended users</i> about the other information and auditor's work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.	<p><i>ISA 720 (Revised), paragraph A52:</i></p> <p><i>May also be appropriate to consider identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report for an entity other than listed entity. This may be the case when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.</i></p>	<p><b>No</b><sup>39</sup></p> <p>Views that the practical difficulties encountered with identifying and considering the other information received after the date of the auditor's report outweighed the public interest benefits of doing so.</p>

<sup>39</sup> See respondents feedback to the Exposure Draft, [ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon](#) (November 2012), the re-exposure of Exposure Draft, ISA 720 (Revised), [The Auditor's Responsibilities Relating to Other Information](#) (April 2014), the Basis for Conclusion: [The Auditor's Responsibilities Relating to Other Information](#) (April 2015), and the findings and recommendations of the Auditor Reporting PIR discussed in [Agenda Item 3](#) (February 2021) and [Agenda Item 5](#) (September 2021).

## Appendix 2 – Mapping the Key Changes Proposed by the Narrow Scope Amendments to the Actions and Objectives in the Project Proposal that Support the Public Interest

### Qualitative Standard-Setting Characteristics Considered

- ▶ *Scalability* – addresses both less and more complex circumstances, commensurate to the facts and circumstances specific to a particular jurisdictional context (e.g., through establishing a global baseline for the categories of entities in the definition of PIE that could be consistently applied across jurisdictions and the revised approach to refining the categories of PIEs by placing a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction).
- ▶ *Proportionality* – addresses the issues in a proportionate manner by considering the relative impact that the proposals may have on different stakeholders (e.g., by considering the need for a more robust and consistent approach as to when the differential requirements in the ISQMs and ISAs are appropriate to apply for PIEs, and by recognizing heightened stakeholder expectations regarding the performance of audit engagements for certain types of entities that may not be listed, but for which the differential requirements would be appropriate to apply (e.g., for financial institutions, including banks and insurance companies)).
- ▶ *Coherence* – among the overall body of the IAASB’s and the IESBA’s standards (e.g., by acknowledging and not potentially undermining the revisions to the IESBA Code – either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code when it is appropriate to do so).
- ▶ *Relevance* – focuses on responding to emerging issues, evolving stakeholder needs and perceptions and changes in business environments (e.g., the need to maintain the relevance and robustness of the ISQMs and ISAs given the heightened expectations of stakeholders regarding the performance of audit engagements for PIEs, and by recognizing situations when the IESBA Code requires an action that also has relevance to the IAASB’s standards).
- ▶ *Clarity and conciseness*, including overall *understandability* – addresses minimizing the likelihood of differing interpretations when concepts across the IAASB’s and the IESBA’s standards differ or are misaligned (e.g., by including requirements and application guidance to support that the IAASB’s and the IESBA’s standards operate in harmony, and without confusion, given that many jurisdictions utilize both).
- ▶ *Implementability* and ability of being *consistently applied and globally operable* – focuses on reducing complexity and supporting consistent application and understanding when concepts across the IAASB and the IESBA standards are aligned, including when there is alignment in the types of entities to which differential requirements apply (e.g., by supporting consistency among jurisdictions globally when applying the ISQMs and ISAs through adopting a common overarching objective for establishing differential requirements for PIEs, aligning definitions and the approach to scoping in PIEs, and by minimizing complexity when too many differential requirements for certain types of entities apply or when requirements are misaligned).

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>40</sup>
	Description	
<b>A. Project Objective: Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.</b>		
<p><b>A.1: The IESBA definition of PIE</b></p> <p><i>Consider adopting the IESBA definition of PIE into the ISQMs and ISAs, or the IAASB Glossary of Terms.</i></p> <p>This project would consider whether the PIE definition should be adopted in the ISQMs and ISAs, because extant differential requirements for listed entities in the ISQMs and ISAs may be amended to apply to all categories of PIEs (also see item C.4 below).</p> <p>This project would also consider the application material in the ISQMs and ISAs that describes entities that have public interest or public accountability characteristics, and any new application material supporting the differential requirements considered as part of this project, and whether it should also reflect the concepts underpinning the definition of PIE (also see item C.5 below).</p> <p>This project would consider whether the PIE definition should be included in the IAASB Glossary of Terms, if it is not defined in the ISQMs and ISAs, but still used, for example, in application material (also see item C.5 below).</p>	<p><i>Definitions</i></p> <ul style="list-style-type: none"> <li>• Adopting the definition of PIE in the Definitions section of the ISQMs and ISAs, and in IAASB Glossary of Terms.</li> </ul> <p><i>Para’s. 16(p)A of ISQM 1; 13(l)A of ISA 200 in the ED</i></p> <p><i>Requirements and Application Material</i></p> <ul style="list-style-type: none"> <li>• Incorporating requirements and application material in the authority of ISQM 1 and ISA 200 to support the entire approach to scoping PIEs as contemplated in the IESBA Code, given that all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction.</li> </ul> <p><i>Para’s. 18A, A29D–A29F of ISQM 1; 23A, A81D–A81F of ISA 200 in the ED</i></p>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Coherence</i></li> <li>• <i>Relevance</i></li> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

<sup>40</sup> The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.



Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>40</sup>
	Description	
<p><b>A.2: The IESBA definition of “publicly traded entity”</b></p> <p><i>Consider adopting the IESBA definition of “publicly traded entity” into the ISQMs and ISAs, as a replacement of listed entity.</i></p> <p>The project would consider the impact on the ISQMs and ISAs of adopting the definition of “publicly traded entity” and replacing “listed entity” with “publicly traded entity” (also see item C.4 below). In particular, the replacement of the term may result in changes in the underlying entities that such requirements apply to, for example:</p> <ul style="list-style-type: none"> <li>• Additional entities may be scoped into the definition of “publicly traded entity” that are not scoped into the extant definition of “listed entity” in the ISQMs and ISAs.</li> <li>• The definition of “publicly traded entity” refers to “a listed entity as defined by relevant securities law or regulation” as an example of a publicly traded entity. As a result, depending on how the term “listed entity” is defined in securities law or regulation, the notion of a listed entity may be broader or narrower than the extant definition of a “listed entity” in the ISQMs and ISAs.</li> </ul>	<p><i>Definitions</i></p> <ul style="list-style-type: none"> <li>• Adopting the definition of “publicly traded entity” in the Definitions section of the ISQMs and ISAs, and in IAASB Glossary of Terms.</li> </ul> <p><i>Para’s. 16(p)B of ISQM 1; 13(l)B of ISA 200 in the ED</i></p>	<ul style="list-style-type: none"> <li>• Scalability</li> <li>• Coherence</li> <li>• Relevance</li> <li>• Clarity and conciseness</li> <li>• Implementability, and ability of being consistently applied and globally operable</li> </ul>
<p><b>B. Project Objective: Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate.</b></p>		
<p><b>B.3: An objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs</b></p> <p><i>Adopt the overarching objective established by the IESBA in paragraph 400.8 of the IESBA Code as a principle for establishing differential requirements for certain entities and application material in the ISQMs</i></p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>• Adopting the overarching objective for establishing differential requirements in the ISQMs and ISAs, based on paragraph 400.8 of the IESBA PIE Revisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Scalability</li> <li>• Proportionality</li> <li>• Coherence</li> <li>• Relevance</li> </ul>

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>40</sup>
	Description	
<p><i>and ISAs.</i></p> <p><i>Develop a tailored objective, based upon the overarching objective, and taking into consideration paragraph 400.10 of the IESBA Code, that explains the purpose for differential requirements for certain entities in the ISQMs and ISAs.</i></p> <p><i>Develop guidelines that assist the IAASB in identifying when differential requirements for certain entities may be appropriate, and if so, how such requirements should be established in the ISQMs and ISAs.</i></p> <p><i>Determine the appropriate location and accessibility of the objective or guidelines described above.</i></p> <p>The objective and guidelines would be used as a basis for:</p> <ul style="list-style-type: none"> <li>• Undertaking a case-by-case analysis of existing differential requirements for listed entities in the ISQMs and ISAs to determine whether those requirements need to be amended to apply to all categories of PIEs (also see item C.4 below); and</li> <li>• Future IAASB projects in determining whether differential requirements need to be established for certain entities in the ISQMs and ISAs (i.e., it would be used to inform the approach by providing principles against which future proposals for differential requirements can be tested).</li> </ul>	<ul style="list-style-type: none"> <li>• Tailoring the purpose for the objective in paragraph 400.10 of the IESBA PIE Revisions to meet “the heightened expectations of stakeholders regarding the audit engagement.”</li> </ul> <p><i>Paras. A29A–A29B of ISQM 1; A81A–A81B of ISA 200 in the ED</i></p>	<ul style="list-style-type: none"> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>40</sup>
	Description	
<p><b>C. Project Objective: Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.</b></p>		
<p><b>C.4: Case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs</b></p> <p><i>Undertake a case-by-case analysis to determine:</i></p> <ul style="list-style-type: none"> <li>• <i>Whether the extant differential requirements for listed entities should be amended to apply to all categories of PIEs; and</i></li> <li>• <i>The impact on extant differential requirements for listed entities of adopting the definition of “publicly traded entity” as a replacement of “listed entity.”</i></li> </ul> <p>In undertaking the case-by-case analysis, the project would consider:</p> <ul style="list-style-type: none"> <li>• The objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs (also see item B.3 above).</li> <li>• The impact of amending the extant differential requirements for listed entities to apply to other entities, including the impact of adopting the definition of “publicly traded entity” as a replacement of “listed entity” if the differential requirements were to apply to “publicly traded entities” (also see items A.1 and A.2 above).</li> <li>• Other information available (e.g., the post-implementation review of the auditor reporting standards, respondents’ feedback from</li> </ul>	<p><i>Scope and Requirements</i></p> <ul style="list-style-type: none"> <li>• Extending the differential requirements for listed entities to apply to PIEs in ISQM 1, ISA 260 (Revised), ISA 700 (Revised) and ISA 701.</li> <li>• Bifurcating the requirements in paragraph 17 of ISA 260 (Revised), to address the communication about compliance with independence requirements in the auditor’s report for all audit engagements.</li> <li>• Amending the differential requirements in paragraphs 21– 22(b) of ISA 720 (Revised) to apply to “publicly traded entity.”</li> </ul> <p><i>Paras. 34(e)–(f) of ISQM 1; 17, 17A of ISA 260 (Revised); 30–31, 40(b)–(c), 46, 50(l) of ISA 700 (Revised); 5 of ISA 701; 21–22(b) of ISA 720 (Revised) in the ED</i></p>	<ul style="list-style-type: none"> <li>• <i>Scalability</i></li> <li>• <i>Proportionality</i></li> <li>• <i>Relevance</i></li> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>40</sup>
	Description	
<p>the Exposure Draft on Proposed ISQM 1<sup>41</sup> regarding the scope of entities that should be subject to an engagement quality review, the Board's deliberations and decisions at the time when certain differential requirements were established, and, where appropriate, how national standard setters have addressed this issue at jurisdictional levels).</p>		
<p><b>C.5: Application and introductory material in the ISQMs and ISAs</b></p> <p><i>As a consequence of undertaking the case-by-case analysis, consider whether:</i></p> <ul style="list-style-type: none"> <li><i>The application material in the ISQMs and ISAs should be updated as a result of any changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIEs.</i></li> <li><i>Updates may be needed to application material (e.g., examples and appendices) and introductory material (e.g., scope and scalability paragraphs) that use the term “listed entity(ies)” or otherwise make reference to listed entities (e.g., entities that are listed or entities other than listed entities).</i></li> </ul> <p>The ISQMs and ISAs include application material to explain that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities to alert auditors that it may be appropriate to apply a requirement that was designed for an audit of financial statements of a listed entity to a broader range of</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>Inclusion of a central list of factors in the authority of ISQM 1 and ISA 200 that supports consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs.</li> <li>Changes to align the entities to which the extant differential requirements apply as well as to align with the concepts underpinning the definition of PIE.</li> </ul> <p><i>Various application and introductory material paragraphs and the illustrative auditor’s reports in the ED</i></p>	<ul style="list-style-type: none"> <li><i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

<sup>41</sup> See Exposure Draft: [Proposed International Standard on Quality Management 1 \(Previously International Standard on Quality Control 1\), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.](#)

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>40</sup>
	Description	
<p>entities.<sup>42</sup> Various examples are included in application material to illustrate the types of entities that may exhibit such characteristics.</p> <p>This project will consider whether such application material should be updated:</p> <ul style="list-style-type: none"> <li>• As a consequence of the IAASB’s decisions regarding which entities the differential requirements apply to; and</li> <li>• To include the categories of entities included in the definition of PIE (i.e., if the requirement continues to apply to listed entities or publicly traded entities only), the factors in the IESBA Code for evaluating the extent of public interest in the financial condition of an entity and the factors in the IESBA Code for firms to consider in determining whether to apply the requirements in the IESBA Code for PIEs to other entities.</li> </ul> <p>The ISQMs and ISAs include references to listed entities and related terms<sup>43</sup> (e.g., examples in application material, appendices, and scope and scalability paragraphs). The project will consider whether such application material needs to be updated.</p>		

<sup>42</sup> References in the application material made with respect to “public interest entities”, “public entities”, “entities with public accountability”, “entities with public interest or public interest characteristics”, “entities with significant public interest” and other similar descriptions.

<sup>43</sup> Related terms include the following: “non-listed”, “other than listed”, “unlisted” and “smaller listed” entity.

# PROPOSED NARROW SCOPE AMENDMENTS TO THE ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

[MARKED-UP FROM EXTANT<sup>1</sup>]

(Effective for audits of financial statements for periods beginning on or after [DATE])

## ISQM 1, QUALITY MANAGEMENT FOR FIRMS THAT PERFORM AUDITS OR REVIEWS OF FINANCIAL STATEMENTS, OR OTHER ASSURANCE OR RELATED SERVICES ENGAGEMENTS

### Introduction

#### Scope of this ISQM

...

#### Scalability

10. In applying a risk-based approach, the firm is required to take into account:

- (a) The nature and circumstances of the firm; and
- (b) The nature and circumstances of the engagements performed by the firm.

Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of ~~listed~~ public interest entities, will likely need to have a more complex and formalized system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or compilation engagements.

...

### Definitions

16. For purposes of this ISQM, the following terms have the meanings attributed below:

...

- ~~(j) Listed entity—An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.~~

...

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<sup>1</sup> The ISQMs and the ISAs as published in the IAASB 2022 Handbook (Volumes I-II), as well as: (i) the approved narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) as part of Track 1 of the narrow scope project on listed entity and PIE and (ii) conforming and consequential amendments as a result of the revision of other approved ISAs which are not yet effective. In addition, certain references refer to the [IESBA PIE Revisions](#) instead of paragraphs of the IESBA Code, given that these revisions will only become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024.

(p)A Public interest entity – An entity is a public interest entity when it falls within any of the following categories:

- (i) A publicly traded entity;
- (ii) An entity one of whose main functions is to take deposits from the public;
- (iii) An entity one of whose main functions is to provide insurance to the public; or
- (iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity.

Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above.

(p)B Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

...

## **Requirements**

### **Applying, and Complying with, Relevant Requirements**

- 17. The firm shall comply with each requirement of this ISQM unless the requirement is not relevant to the firm because of the nature and circumstances of the firm or its engagements. (Ref: Para. A29)
- 18. The individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management, and the individual(s) assigned operational responsibility for the firm's system of quality management shall have an understanding of this ISQM, including the application and other explanatory material, to understand the objective of this ISQM and to apply its requirements properly.

### **Public Interest Entities**

18A. The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii). (Ref: Para. A29A–A29G)

...

### **Specified Responses**

- 34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses: (Ref: Para. A116)
  - (a) The firm establishes policies or procedures for:
    - (i) Identifying, evaluating and addressing threats to compliance with the relevant ethical requirements; and (Ref: Para. A117)
    - (ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner. (Ref: Para. A118–A119)
  - (b) The firm obtains, at least annually, a documented confirmation of compliance with

- independence requirements from all personnel required by relevant ethical requirements to be independent.
- (c) The firm establishes policies or procedures for receiving, investigating and resolving complaints and allegations about failures to perform work in accordance with professional standards and applicable legal and regulatory requirements, or non-compliance with the firm's policies or procedures established in accordance with this ISQM. (Ref: Para. A120–A121)
- (d) The firm establishes policies or procedures that address circumstances when:
- (i) The firm becomes aware of information subsequent to accepting or continuing a client relationship or specific engagement that would have caused it to decline the client relationship or specific engagement had that information been known prior to accepting or continuing the client relationship or specific engagement; or (Ref: Para. A122–A123)
  - (ii) The firm is obligated by law or regulation to accept a client relationship or specific engagement. (Ref: Para. A123)
- (e) The firm establishes policies or procedures that: (Ref: Para. A124–A126)
- (i) Require communication with those charged with governance when performing an audit of financial statements of ~~listed~~ public interest entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129)
  - (ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A130)
  - (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132)
- (f) The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for:
- (i) Audits of financial statements of ~~listed~~ public interest entities;
  - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)
  - (iii) Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)

...

## Application and Other Explanatory Material

...

### Applying, and Complying with, Relevant Requirements (Ref: Para. 17)

A29. *Examples of when a requirement of this ISQM may not be relevant to the firm*

- The firm is a sole practitioner. For example, the requirements addressing the organizational



structure and assigning roles, responsibilities and authority within the firm, direction, supervision and review and addressing differences of opinion may not be relevant.

- The firm only performs engagements that are related services engagements. For example, if the firm is not required to maintain independence for related services engagements, the requirement to obtain a documented confirmation of compliance with independence requirements from all personnel would not be relevant.

#### **Public Interest Entities (Ref: Para. 18A)**

A29A. Some of the requirements set out in the ISQMs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

A29B. Stakeholders have heightened expectations regarding an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISQMs that apply to audits of financial statements of public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

A29C. The extent of public interest in the financial condition of an entity may, for example, be affected by:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

A29D. Law, regulation or professional requirements may use terms other than "public interest entity" to describe entities in which there is a significant public interest in the financial condition (see paragraph A29B). The requirements in the ISQMs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as "public interest entities" for reasons unrelated to the significant public interest in the financial condition of the entities, the requirements for audits of financial statements of public interest entities in the ISQMs may not necessarily apply to such entities.

A29E. The categories set out in paragraph 16(p)A(i)–(iii) are broadly defined and law, regulation or professional requirements may more explicitly define these categories, by for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.

- Setting size criteria for certain types of entities.

A29F.Paragraph 16(p)A(iv) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph A29B, and may consider the matters in paragraph A29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

A29G.The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence.<sup>2</sup> In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, the firm has applied the differential requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements.
- Whether the entity or other stakeholders requested the firm to apply the differential requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.
- Whether in similar circumstances, a predecessor firm has applied differential requirements for public interest entities to the entity.

...

#### **Specified Responses** (Ref: Para. 34)

...

#### Communication with Those Charged with Governance (Ref. Para: 34(e)(i))

A127. How the communication with those charged with governance is undertaken (i.e., by the firm or the engagement team) may depend on the firm's policies or procedures and the circumstances of the engagement.

A128. ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with

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<sup>2</sup> See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

governance in an audit of financial statements, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate<sup>3</sup> and the communication process.<sup>4</sup> In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than ~~listed public interest~~ entities (or when performing other engagements). ~~for example, entities that may have public interest or public accountability characteristics, such as:~~

- ~~• Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds.~~
- ~~• Entities with a high public profile, or whose management or owners have a high public profile.~~
- ~~• Entities with a large number and wide range of stakeholders.~~

#### Public sector considerations

A129. The firm may determine it is appropriate to communicate to those charged with governance of a public sector entity about how the firm's system of quality management supports the consistent performance of quality engagements, taking into account the size and complexity of the public sector entity, the range of its stakeholders, the nature of the services it provides, and the role and responsibilities of those charged with governance.

#### Determining When it is Otherwise Appropriate to Communicate with External Parties (Ref. Para: 34(e)(ii))

A130. The firm's determination of when it is appropriate to communicate with external parties about the firm's system of quality management is a matter of professional judgment and may be influenced by matters such as:

- The types of engagements performed by the firm, and the types of entities for which such engagements are undertaken.
- The nature and circumstances of the firm.
- The nature of the firm's operating environment, such as customary business practice in the firm's jurisdiction and the characteristics of the financial markets in which the firm operates.
- The extent to which the firm has already communicated with external parties in accordance with law or regulation (i.e., whether further communication is needed, and if so, the matters to be communicated).
- The expectations of stakeholders in the firm's jurisdiction, including the understanding and interest that external parties have expressed about the engagements undertaken by the firm, and the firm's processes in performing the engagements.
- Jurisdictional trends.
- The information that is already available to external parties.
- How external parties may use the information, and their general understanding of matters related to firms' system of quality management and audits or reviews of financial statements,

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<sup>3</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraphs 11–13

<sup>4</sup> ISA 260 (Revised), paragraphs 18–22

or other assurance or related services engagements.

- The public interest benefits of external communication and whether it would reasonably be expected to outweigh the costs (monetary or otherwise) of such communication.

The above matters may also affect the information provided by the firm in the communication, and the nature, timing and extent and appropriate form of communication.

Nature, Timing and Extent and Appropriate Form of Communication with External Parties (Ref. Para: 34(e)(iii))

A131. The firm may consider the following attributes in preparing information that is communicated to external parties:

- The information is specific to the circumstances of the firm. Relating the matters in the firm's communication directly to the specific circumstances of the firm may help to minimize the potential that such information becomes overly standardized and less useful over time.
- The information is presented in a clear and understandable manner, and the manner of presentation is neither misleading nor would inappropriately influence the users of the communication (e.g., the information is presented in a manner that is appropriately balanced towards positive and negative aspects of the matter being communicated).
- The information is accurate and complete in all material respects and does not contain information that is misleading.
- The information takes into consideration the information needs of the users for whom it is intended. In considering the information needs of the users, the firm may consider matters such as the level of detail that users would find meaningful and whether users have access to relevant information through other sources (e.g., the firm's website).

A132. The firm uses professional judgment in determining, in the circumstances, the appropriate form of communication with the external party, including communication with those charged with governance when performing an audit of financial statements of ~~listed~~ public interest entities, which may be made orally or in writing. Accordingly, the form of communication may vary.

*Examples of form of communication to external parties*

- A publication such as a transparency report or audit quality report.
- Targeted written communication to specific stakeholders (e.g., information about the results of the firm's monitoring and remediation process).
- Direct conversations and interactions with the external party (e.g., discussions between the engagement team and those charged with governance).
- A webpage.
- Other forms of digital media, such as social media, or interviews or presentations via webcast or video.

*Engagements Subject to an Engagement Quality Review*

Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii))

A133. This ISQM requires an engagement quality review for audits of financial statements of public interest entities. Paragraph 16(p)A(iv) anticipates that law, regulation or professional requirements may include additional categories of public interest entities, for example, pension funds. Law or regulation may also include explicit requirements to perform an engagement quality review to be performed for certain entities, for example, for audit engagements for entities that:

- ~~• Are public interest entities as defined in a particular jurisdiction;~~
- Operate in the public sector or which are recipients of government funding, or entities with public accountability;
- Operate in certain industries ~~(e.g., financial institutions such as banks, insurance companies and pension funds);~~
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

Engagement Quality Review as a Response to Address One or More Quality Risk(s) (Ref: Para. 34(f)(iii))

A134. The firm's understanding of the conditions, events, circumstances, actions or inactions that may adversely affect the achievement of the quality objectives, as required by paragraph 25(a)(ii), relates to the nature and circumstances of the engagements performed by the firm. In designing and implementing responses to address one or more quality risk(s), the firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks.

*Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response*

Those relating to the types of engagements performed by the firm and reports to be issued:

- Engagements that involve a high level of complexity or judgment, such as:
  - Audits of financial statements for entities operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., ~~certain large financial institutions or~~ certain financial institutions or mining entities), or for entities for which uncertainties exist related to events or conditions that may cast significant doubt on their ability to continue as a going concern.
  - Assurance engagements that require specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Engagements on which issues have been encountered, such as audit engagements with recurring internal or external inspection findings, unremediated significant deficiencies in internal control, or a material restatement of comparative information in the financial statements.

- Engagements for which unusual circumstances have been identified during the firm's acceptance and continuance process (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- Engagements that involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, and that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus.

Those relating to the types of entities for which engagements are undertaken:

- Entities in emerging industries, or for which the firm has no previous experience.
- Entities for which concerns were expressed in communications from securities or prudential regulators.
- ~~Entities other than listed entities that may have public interest or public accountability characteristics, for example:-~~
  - ~~Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation.~~
- Entities with a high public profile, or whose management or owners have a high public profile.
  - ~~Entities with a large number and wide range of stakeholders.~~

A135. The firm's responses to address quality risks may include other forms of engagement reviews that are not an engagement quality review. For example, for audits of financial statements, the firm's responses may include reviews of the engagement team's procedures relating to significant risks, or reviews of certain significant judgments, by personnel who have specialized technical expertise. In some cases, these other types of engagement reviews may be undertaken in addition to an engagement quality review.

A136. In some cases, the firm may determine that there are no audits or other engagements for which an engagement quality review or another form of engagement review is an appropriate response to address the quality risk(s).

#### Public sector considerations

A137. The nature and circumstances of public sector entities (e.g., due to their size and complexity, the range of their stakeholders, or the nature of the services they provide) may give rise to quality risks. In these circumstances, the firm may determine that an engagement quality review is an appropriate response to address such quality risks. Law or regulation may establish additional reporting requirements for the auditors of public sector entities (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements). In such cases, the firm may also consider the complexity of such reporting, and its importance to users, in determining whether an engagement quality review is an appropriate response.

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*Engagement Inspections (Ref: Para. 38)*

A151. *Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection*

- In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks:
  - The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement.
  - The types of entities for which engagements are undertaken, for example:
    - Entities that are ~~listed~~ public interest entities.
    - Entities operating in emerging industries.
    - Entities operating in industries associated with a high level of complexity or judgment.
    - Entities operating in an industry that is new to the firm.
  - The tenure and experience of engagement partners.
- The results of previous inspections of completed engagements, including for each engagement partner.
- In relation to other relevant information:
  - Complaints or allegations about an engagement partner.
  - The results of external inspections, including for each engagement partner.
  - The results of the firm's evaluation of each engagement partner's commitment to quality.

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*Evaluating Identified Deficiencies (Ref: Para. 41)*

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Root Cause of the Identified Deficiencies (Ref: Para. 41(a))

A165. The objective of investigating the root cause(s) of identified deficiencies is to understand the underlying circumstances that caused the deficiencies to enable the firm to:

- Evaluate the severity and pervasiveness of the identified deficiency; and
- Appropriately remediate the identified deficiency.

Performing a root cause analysis involves those performing the assessment exercising professional judgment based on the evidence available.

A166. The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:

- The complexity and operating characteristics of the firm.

- The size of the firm.
- The geographical dispersion of the firm.
- How the firm is structured or the extent to which the firm concentrates or centralizes its processes or activities.

*Examples of how the nature of identified deficiencies and their possible severity and the nature and circumstances of the firm may affect the nature, timing and extent of the procedures to understand the root cause(s) of the identified deficiencies*

- The nature of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a ~~listed~~ publicly traded entity was issued that was inappropriate or the identified deficiency relates to leadership's actions and behaviors regarding quality.
- The possible severity of the identified deficiency: The firm's procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when the deficiency has been identified across multiple engagements or there is an indication that policies or procedures have high rates of non-compliance.
- Nature and circumstances of the firm:
  - In the case of a less complex firm with a single location, the firm's procedures to understand the root cause(s) of an identified deficiency may be simple, since the information to inform the understanding may be readily available and concentrated, and the root cause(s) may be more apparent.
  - In the case of a more complex firm with multiple locations, the procedures to understand the root cause(s) of an identified deficiency may include using individuals specifically trained on investigating the root cause(s) of identified deficiencies, and developing a methodology with more formalized procedures for identifying root cause(s).

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## ISQM 2, ENGAGEMENT QUALITY REVIEWS

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### Application and Other Explanatory Material

#### Appointment and Eligibility of Engagement Quality Reviewers

*Assignment of Responsibility for the Appointment of Engagement Quality Reviewers (Ref: Para. 17)*

- A1. Competence and capabilities that are relevant to an individual's ability to fulfill responsibility for the appointment of the engagement quality reviewer may include appropriate knowledge about:
- The responsibilities of an engagement quality reviewer;
  - The criteria in paragraphs 18 and 19 regarding the eligibility of engagement quality reviewers; and
  - The nature and circumstances of the engagement or the entity subject to an engagement



quality review, including the composition of the engagement team.

- A2. The firm's policies or procedures may specify that the individual responsible for the appointment of engagement quality reviewers not be a member of the engagement team for which an engagement quality review is to be performed. However, in certain circumstances (e.g., in the case of a smaller firm or a sole practitioner), it may not be practicable for an individual other than a member of the engagement team to appoint the engagement quality reviewer.
- A3. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of ~~listed~~ public interest entities than for audits of ~~non-listed~~ entities other than public interest entities or other engagements, with different individuals responsible for each process.

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### **Performance of the Engagement Quality Review** (Ref: Para. 24–27)

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#### *Procedures Performed by the Engagement Quality Reviewer* (Ref: Para. 25–27)

- A28. The firm's policies or procedures may specify the nature, timing and extent of the procedures performed by the engagement quality reviewer and also may emphasize the importance of the engagement quality reviewer exercising professional judgment in performing the review.
- A29. The timing of the procedures performed by the engagement quality reviewer may depend on the nature and circumstances of the engagement or the entity, including the nature of the matters subject to the review. Timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, performing and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. For example, the engagement quality reviewer may perform procedures in relation to the overall strategy and plan for the engagement at the completion of the planning phase. Timely performance of the engagement quality review also may reinforce the exercise of professional judgment and, when applicable to the type of engagement, professional skepticism, by the engagement team in planning and performing the engagement.
- A30. The nature and extent of the engagement quality reviewer's procedures for a specific engagement may depend on, among other factors:
- The reasons for the assessments given to quality risks,<sup>5</sup> for example, engagements performed for entities in emerging industries or with complex transactions.
  - Identified deficiencies, and the remedial actions to address the identified deficiencies, related to the firm's monitoring and remediation process, and any related guidance issued by the firm, which may indicate areas where more extensive procedures need to be performed by the engagement quality reviewer.
  - The complexity of the engagement.

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<sup>5</sup> ISQM 1, paragraph A49

- The nature and size of the entity, including whether the entity is a ~~listed~~ public interest entity.
- Findings relevant to the engagement, such as the results of inspections undertaken by an external oversight authority in a prior period, or other concerns raised about the quality of the work of the engagement team.
- Information obtained from the firm's acceptance and continuance of client relationships and specific engagements.
- For assurance engagements, the engagement team's identification and assessment of, and responses to, risks of material misstatement in the engagement.
- Whether members of the engagement team have cooperated with the engagement quality reviewer. The firm's policies or procedures may address the actions the engagement quality reviewer takes in circumstances when the engagement team has not cooperated with the engagement quality reviewer, for example, informing an appropriate individual in the firm so appropriate action can be taken to resolve the issue.

A31. The nature, timing and extent of the engagement quality reviewer's procedures may need to change based on circumstances encountered in performing the engagement quality review.

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## **ISA 200, OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING**

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### **Definitions**

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13. For purposes of the ISAs, the following terms have the meanings attributed below:

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(I)A Public interest entity – An entity is a public interest entity when it falls within any of the following categories:

(i) A publicly traded entity;

(ii) An entity one of whose main functions is to take deposits from the public;

(iii) An entity one of whose main functions is to provide insurance to the public; or

(iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity.

Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above.

(I)B Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

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## Requirements

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### Conduct of an Audit in Accordance with ISAs

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#### *Complying with Relevant Requirements*

22. Subject to paragraph 23, the auditor shall comply with each requirement of an ISA unless, in the circumstances of the audit:
- (a) The entire ISA is not relevant; or
  - (b) The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. A79–A80)
23. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A81)

#### Public Interest Entities

- 23A. The auditor shall treat an entity as a public interest entity in accordance with the definition in paragraph 13(l)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 13(l)A(i)–(iii). In doing so, the auditor shall follow the firm’s related policies or procedures. (Ref: Para. A81A–A81G)

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## Application and Other Explanatory Material

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### Conduct of an Audit in Accordance with ISAs

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#### *Contents of the ISAs (Ref: Para. 19)*

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#### Scalability Considerations

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- A69. Scalability considerations have been included in some ISAs (e.g., ISA 315 (Revised 2019)), illustrating the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. Less complex entities are entities for which the

characteristics in paragraph A71 may apply.

A70. The “considerations specific to smaller entities” included in some ISAs have been developed primarily with ~~unlisted~~ entities other than public interest entities in mind. Some of the considerations, however, may be helpful in audits of smaller ~~listed~~ public interest entities.

A71. For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to an entity which typically possesses qualitative characteristics such as:

- (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
- (b) One or more of the following:
  - (i) Straightforward or uncomplicated transactions;
  - (ii) Simple record-keeping;
  - (iii) Few lines of business and few products within business lines;
  - (iv) Simpler system of internal controls;
  - (v) Few levels of management with responsibility for a broad range of controls; or
  - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

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#### *Complying with Relevant Requirements*

Relevant Requirements (Ref: Para. 22)

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Departure from a Requirement (Ref: Para. 23)

A81. ISA 230 establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement.<sup>6</sup> The ISAs do not call for compliance with a requirement that is not relevant in the circumstances of the audit.

#### Public Interest Entities (Ref: Para. 23A)

A81A. Some of the requirements set out in the ISAs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

A81B. Stakeholders have heightened expectations regarding an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISAs that apply to audits of financial statements of public interest entities is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s

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<sup>6</sup> ISA 230, paragraph 12

financial statements that can be used when assessing the entity's financial condition.

A81C. The extent of public interest in the financial condition of an entity may, for example, be affected by:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

A81D. Law, regulation or professional requirements may use terms other than public interest entity to describe entities in which there is a significant public interest in the financial condition (see paragraph A81B). The requirements in the ISAs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as "public interest entities" for reasons unrelated to the significant public interest in the financial condition of the entities, the requirements for audits of financial statements of public interest entities in the ISAs may not necessarily apply to such entities.

A81E. The categories set out in paragraph 13(l)A(i)–(iii) are broadly defined and law, regulation or professional requirements may more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

A81F. Paragraph 13(l)A(iv) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph A81B, and may consider the matters in paragraph A81C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

A81G. The auditor may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISAs. When making this determination, the auditor may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements.

including those related to independence.<sup>7</sup> In addition, the auditor may consider the matters set out in paragraph A81C as well as the following factors:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances, the auditor has applied the differential requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements.
- Whether the entity or other stakeholders requested the auditor to apply the differential requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.
- Whether in similar circumstances, a predecessor auditor has applied differential requirements for public interest entities to the entity.

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## ISA 210, AGREEING THE TERMS OF AUDIT ENGAGEMENTS

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### Application and Other Explanatory Material

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#### Preconditions for an Audit

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*Agreement of the Responsibilities of Management* (Ref: Para. 6(b))

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A12. The way in which the responsibilities for financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial statements or monitoring the entity's internal control related to financial reporting. In larger or more complex entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.

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<sup>7</sup> See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

## ISA 220 (REVISED), QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

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### Application and Other Explanatory Material

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#### Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)

*Relevant Ethical Requirements* (Ref: Para. 1, 16–21)

A38. ISA 200<sup>8</sup> requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of ~~listed~~ public interest entities. ISA 600 (Revised) includes additional requirements and guidance to those in this ISA regarding communications about relevant ethical requirements with component auditors.

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## ISA 240, THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS

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### Application and Other Explanatory Material

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#### Identification and Assessment of the Risks of Material Misstatement Due to Fraud

Risks of Fraud in Revenue Recognition (Ref: Para. 27)

A29. Material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may result also from an understatement of revenues through, for example, improperly shifting revenues to a later period.

A30. The risks of fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition in the case of ~~listed~~ certain public interest entities when, for example, performance is measured in terms of year over year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

A31. The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for

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<sup>8</sup> ISA 200, paragraphs 14 and A16–A19

example, leasehold revenue from a single unit rental property.

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## ISA 260 (REVISED), COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

### Introduction

#### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for ~~listed-public interest~~ entities. This ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

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### Requirements

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#### Matters to Be Communicated

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#### *Auditor Independence*

- 16A. The auditor shall communicate with those charged with governance the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement, including if applicable in the circumstances, any independence requirements specific to audits of financial statements of certain entities. (Ref: Para. A29)
17. ~~In the case of listed entities, t~~The auditor shall communicate with those charged with governance a:  
A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.
- 17A. For audits of financial statements of public interest entities, the statement required by paragraph 17 shall include:
  - (a) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. ~~This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and (Ref: Para. A29A)~~
  - (b) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref:



Para. ~~A30–A32~~)

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## The Communication Process

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### *Forms of Communication*

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20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraphs 17 and 17A.

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## Application and Other Explanatory Material

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### Matters to Be Communicated

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#### *Auditor Independence* (Ref: Para. 16A–17A)

- A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements<sup>9</sup> and to communicate with those charged with governance about the requirements the auditor applies. Relevant ethical requirements may:

- Establish independence requirements that are specific to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). If applicable in the circumstances of the audit engagement, this ISA requires that the auditor also communicates with those charged with governance that the auditor applies such independence requirements.
- Require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities specified in the relevant ethical requirements.<sup>10</sup> ISA 700 (Revised) addresses the requirements for the auditor's report relating to the auditor's independence and the relevant ethical requirements the auditor applied.<sup>11</sup>
- Require or encourage the auditor to determine whether it is appropriate to apply independence requirements that are specific to audits of financial statements of certain entities to audits of

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<sup>9</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

<sup>10</sup> See, for example, the public disclosure requirements in the IESBA PIE Revisions, paragraphs R400.20-R400.21.

<sup>11</sup> ISA 700 (Revised), paragraph 28(c)

financial statements of other entities not specified in the relevant ethical requirements.<sup>12</sup> If this is the case and the auditor is required to publicly disclose when the auditor applied such independence requirements, the auditor may discuss with management or those charged with governance whether there is a risk of misunderstanding the nature of the entity and any need for additional disclosure.

A29A. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance for matters that may reasonably be thought to bear on independence. For example, the IESBA Code requires the auditor to communicate with those charged with governance information regarding fees<sup>13</sup> and the provision of non-audit services for audit clients that are public interest entities.<sup>14</sup>

A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate the circumstances that created the threats.

A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the IESBA Code requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.<sup>15</sup>

A32. Paragraph A81G of ISA 200 explains that the auditor may treat other entities as public interest entities and provides considerations for the auditor in doing so. The communication requirements relating to auditor independence that apply in the case of ~~listed public interest~~ entities may also be appropriate in the case of some ~~other entities other than public interest entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.~~ On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

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## The Communication Process

*Establishing the Communication Process* (Ref: Para. 18)

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<sup>12</sup> See, for example, encouragement in the application material in the IESBA PIE Revisions, paragraph 400.19 A1.

<sup>13</sup> See, for example, paragraphs R410.23–R410.28 of the IESBA Code.

<sup>14</sup> See, for example, paragraphs R600.21–R600.23 of the IESBA Code.

<sup>15</sup> See, for example, paragraphs R400.80–R400.82 and R400.84 of the IESBA Code.

### Considerations Specific to Smaller Entities

A40. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of, for example, publicly traded or ~~listed~~ or larger entities.

...

## **ISA 265, COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**

...

### **Application and Other Explanatory Material**

...

#### **Significant Deficiencies in Internal Control** (Ref: Para. 6(b), 8)

...

A9. Law or regulation in some jurisdictions may establish a requirement (particularly for audits of ~~listed~~ public interest entities) for the auditor to communicate to those charged with governance or to other relevant parties (such as regulators) one or more specific types of deficiency in internal control that the auditor has identified during the audit. Where law or regulation has established specific terms and definitions for these types of deficiency and requires the auditor to use these terms and definitions for the purpose of the communication, the auditor uses such terms and definitions when communicating in accordance with the legal or regulatory requirement.

...

#### **Communication of Deficiencies in Internal Control**

*Communication of Significant Deficiencies in Internal Control to Those Charged with Governance* (Ref: Para. 9)

...

A13. In determining when to issue the written communication, the auditor may consider whether receipt of such communication would be an important factor in enabling those charged with governance to discharge their oversight responsibilities. In addition, for ~~listed~~ public interest entities in certain jurisdictions, those charged with governance may need to receive the auditor's written communication before the date of approval of the financial statements in order to discharge specific responsibilities in relation to internal control for regulatory or other purposes. For other entities, the auditor may issue the written communication at a later date. Nevertheless, in the latter case, as the auditor's written communication of significant deficiencies forms part of the final audit file, the written communication is subject to the overriding requirement<sup>16</sup> for the auditor to complete the assembly of the final audit file on a timely basis. ISA 230 states that an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the

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<sup>16</sup> ISA 230, *Audit Documentation*, paragraph 14

auditor's report.<sup>17</sup>

- A14. Regardless of the timing of the written communication of significant deficiencies, the auditor may communicate these orally in the first instance to management and, when appropriate, to those charged with governance to assist them in taking timely remedial action to minimize the risks of material misstatement. Doing so, however, does not relieve the auditor of the responsibility to communicate the significant deficiencies in writing, as this ISA requires.
- A15. The level of detail at which to communicate significant deficiencies is a matter of the auditor's professional judgment in the circumstances. Factors that the auditor may consider in determining an appropriate level of detail for the communication include, for example:
- The nature of the entity. For example, the communication required for a public interest entity may be different from that for an entity other than a non-public interest entity.
  - The size and complexity of the entity. For example, the communication required for a complex entity may be different from that for an entity operating a simple business.
  - The nature of significant deficiencies that the auditor has identified.
  - The entity's governance composition. For example, more detail may be needed if those charged with governance include members who do not have significant experience in the entity's industry or in the affected areas.
  - Legal or regulatory requirements regarding the communication of specific types of deficiency in internal control.

...

## **ISA 315 (REVISED 2019), IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT**

...

### **Application and Other Explanatory Material**

...

#### **Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control (Ref: Para. 19–27)**

...

*The Entity and Its Environment* (Ref: Para. 19(a))

The Entity's Organizational Structure, Ownership and Governance, and Business Model (Ref: Para. 19(a)(i))

The entity's organizational structure and ownership

- A56. An understanding of the entity's organizational structure and ownership may enable the auditor to understand such matters as:

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<sup>17</sup> ISA 230, paragraph A21

- The complexity of the entity's structure.
- ...
- The distinction between the owners, those charged with governance and management.

**Example:**

In less complex entities, owners of the entity may be involved in managing the entity, therefore there is little or no distinction. In contrast, such as in some ~~listed~~ publicly traded entities, there may be a clear distinction between management, the owners of the entity, and those charged with governance.<sup>18</sup>

...

## ISA 510, INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES

...

### Appendix

(Ref: Para A8)

## Illustrations of Auditors' Reports with Modified Opinions

...

**Illustration 1:**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>19</sup> does not apply).**

...

**Illustration 2:**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

<sup>18</sup> ISA 260 (Revised), paragraphs A1 and A2, provide guidance on the identification of those charged with governance and explains that in some cases, some or all of those charged with governance may be involved in managing the entity.

<sup>19</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

## ISA 570 (REVISED), GOING CONCERN

...

### Appendix

(Ref: Para. A29, A31–A32)

#### Illustrations of Auditor's Reports Relating to Going Concern

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

##### **Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>20</sup> does not apply).**

...

##### **Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

<sup>20</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

**Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

**ISA 600 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS)**

...

**Appendix 1**

(Ref: Para. A42)

**Illustration of Independent Auditor’s Report Where the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**

...

**INDEPENDENT AUDITOR’S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Consolidated Financial Statements<sup>21</sup>**

...

**Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 2 in ISA 700 (Revised). The last two paragraphs which are applicable for audits of ~~listed~~ public interest entities only would not be included.]*

...

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<sup>21</sup> The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

## ISA 700 (REVISED), FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

...

### Requirements

...

### Auditor's Report

...

#### *Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing*

...

#### Key Audit Matters

30. For audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.
31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA 701. (Ref: Para. A40–A43~~2~~)

...

#### Auditor's Responsibilities for the Audit of the Financial Statements

...

40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A50)
  - (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;
  - (b) ~~For audits of financial statements of listed entities, s~~State that the auditor provides those charged with governance with a statement that the auditor has:
    - (i) Complied with relevant ethical requirements regarding independence; and
    - (ii) For audits of financial statements of public interest entities, communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied; and
  - (c) For audits of financial statements of ~~listed~~ public interest entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when,



in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

...

#### Name of the Engagement Partner

46. The name of the engagement partner shall be included in the auditor's report on financial statements of ~~listed public interest~~ entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61–A63)

...

#### *Auditor's Report Prescribed by Law or Regulation*

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)
- (a) ...
  - (l) For audits of complete sets of general purpose financial statements of ~~listed public interest~~ entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
  - (m) ...

...

## **Application and Other Explanatory Material**

...

### **Auditor's Report** (Ref: Para. 20)

...

#### *Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing*

...

### Key Audit Matters (Ref: Para. 31)

- A40. This ISA requires communication of key audit matters for audits of financial statements of public interest entities. Paragraph 13(l)A(iv) of ISA 200 anticipates that law, regulation or professional requirements may include additional categories of public interest entities, for example, pension funds. Law or regulation may also require communication of key audit matters for audits of entities other than public interest entities ~~listed entities, for example, entities characterized in such law or regulation~~

as public interest entities.

- A41. Paragraph A81G of ISA 200 explains that the auditor may treat other entities as public interest entities and provides considerations for the auditor in doing so. The auditor may also decide to communicate key audit matters for ~~other entities other than public interest entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.~~
- A42. ISA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.<sup>22</sup> ISA 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.<sup>23</sup> When the auditor is not otherwise required to communicate key audit matters, ISA 210<sup>24</sup> explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

#### Considerations specific to public sector entities

- A43. ~~Listed entities are not common in the public sector. However, p~~Public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

...

#### Name of the Engagement Partner (Ref: Para. 46)

- A61. The objective of the firm in ISQM 1<sup>25</sup> is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:
- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
  - Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding the objective of ISQM 1, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on the financial statements of a ~~listed~~ public interest entity.

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<sup>22</sup> ISA 210, paragraphs 9 and A22

<sup>23</sup> ISA 210, paragraph 10

<sup>24</sup> ISA 210, paragraph A25

<sup>25</sup> ISQM 1, *Quality Control for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 14

- A62. Law, regulation or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits other than those of financial statements of ~~listed~~ public interest entities. The auditor may also be required by law, regulation or national auditing standards, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.
- A63. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national auditing standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.
- ...

## Appendix

(Ref: Para A19)

### Illustrations of Independent Auditor's Reports on Financial Statements

- Illustration 1: An auditor's report on financial statements of a ~~listed~~ public interest entity prepared in accordance with a fair presentation framework
- Illustration 2: An auditor's report on consolidated financial statements of a ~~listed~~ public interest entity prepared in accordance with a fair presentation framework
- Illustration 3: An auditor's report on financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with a fair presentation framework (where reference is made to material that is located on a website of an appropriate authority)
- Illustration 4: An auditor's report on financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with a general purpose compliance framework

#### **Illustration 1 – Auditor's Report on Financial Statements of a ~~Listed~~ Public Interest Entity Prepared in Accordance with a Fair Presentation Framework**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

**Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Public Interest Entity Prepared in Accordance with a Fair Presentation Framework**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed public interest entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).

...

**Illustration 3 – Auditor’s Report on Financial Statements of an Entity Other than a Listed Public Interest Entity Prepared in Accordance with a Fair Presentation Framework**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).

...

- The auditor elects to refer to the description of the auditor’s responsibility included on a website of an appropriate authority.

...

**Illustration 4 – Auditor’s Report on Financial Statements of an Entity Other than a Listed Public Interest Entity Prepared in Accordance with a General Purpose Compliance Framework**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed public interest entity required by law or regulation. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).

...

## INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

### Opinion

...

### Basis for Opinion

...

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

...

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>26</sup>**

...

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor’s responsibilities, rather than including this material in the auditor’s report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

...

**ISA 701, COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR’S REPORT**

**Introduction**

**Scope of this ISA**

...

5. This ISA applies to audits of complete sets of general purpose financial statements of ~~listed public interest~~ entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor’s report. This ISA also applies when the auditor is required by law or regulation

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<sup>26</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

to communicate key audit matters in the auditor's report.<sup>27</sup> However, ISA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.<sup>28</sup>

...

## Application and Other Explanatory Material

...

### Communicating Key Audit Matters

...

*Form and Content of the Key Audit Matters Section in Other Circumstances* (Ref: Para. 16)

...

A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a ~~listed~~ public interest entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a ~~listed~~ public interest entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

...

## ISA 705 (REVISED), MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

...

### Appendix

(Ref: Para A17–A18, A25)

### Illustrations of Independent Auditor's Reports with Modifications to the Opinion

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial

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<sup>27</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 30–31

<sup>28</sup> ISA 705 (Revised), paragraph 29

statements.

- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

**Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a ~~listed~~ **public interest** entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>29</sup> does not apply).

...

**Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a ~~listed~~ **public interest** entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).

...

**Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a ~~listed~~ **public interest** entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).

...

**Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of an entity other than a ~~listed~~ **public interest** entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).

...

<sup>29</sup> ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

**Illustration 5 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised), does not apply).**

...

**ISA 706 (REVISED), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR’S REPORT**

...

**Application and Other Explanatory Material**

...

**Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor’s Report**  
(Ref: Para. 9, 11)

...

A17. Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor’s report. The illustrative report in Appendix 4 includes an Emphasis of Matter paragraph in an auditor’s report for an entity other than a ~~listed~~ public interest entity that contains a qualified opinion and for which key audit matters have not been communicated.

...

**Appendix 3**

(Ref: Para A17)

**Illustration of an Independent Auditor’s Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>30</sup> does not apply).**

...

<sup>30</sup> ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*



## Appendix 4

(Ref: Para A8)

### Illustration of an Independent Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).

...

### ISA 710, COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

...

## Appendix

(Ref: Para A5, A7, A10)

### Illustrations of Independent Auditors' Reports

#### Illustration 1 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>31</sup> does not apply).

...

#### Illustration 2 – Corresponding Figures

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a ~~listed~~ public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).

...

<sup>31</sup> ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

**Illustration 3 – Corresponding Figures**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~-public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

**Illustration 4 – Comparative Financial Statements**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~-public interest entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

**ISA 720 (REVISED), THE AUDITOR’S RESPONSIBILITIES RELATING TO OTHER INFORMATION**

**Introduction**

...

**Scope of this ISA**

...

6. The auditor’s responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor’s report.

...

**Requirements**

...

**Reporting**

21. The auditor’s report shall include a separate section with a heading “Other Information”, or other appropriate heading, when, at the date of the auditor’s report:
  - (a) For an audit of financial statements of a ~~listed~~-publicly traded entity, the auditor has obtained, or expects to obtain, the other information; or
  - (b) For an audit of financial statements of an entity other than a ~~listed~~-publicly traded entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)

22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)
- (a) A statement that management is responsible for the other information;
  - (b) An identification of:
    - (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and
    - (ii) For an audit of financial statements of a ~~listed~~ publicly traded entity, other information, if any, expected to be obtained after the date of the auditor's report;
  - (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
  - (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA; and
  - (e) When other information has been obtained prior to the date of the auditor's report, either:
    - (i) A statement that the auditor has nothing to report; or
    - (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

...

## Application and Other Explanatory Material

...

### Obtaining the Other Information (Ref: Para. 13)

...

- A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is ~~listed~~ publicly traded in more than one jurisdiction), consideration may need to be given as to whether one, or more than one of the "annual reports" form part of the other information. Local law or regulation may provide further guidance in this respect.

...

### Reporting (Ref: Para. 21–24)

- A52. For an audit of financial statements of an entity other than a ~~listed~~ publicly traded entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this ISA. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

...

## Appendix 2

(Ref: Para. 21-22, A53)

### Illustration of Independent Auditor's Reports Relating to Other Information

- Illustration 1: An auditor's report of any entity, ~~whether listed or other than listed~~, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Illustration 2: An auditor's report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an entity other than a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: An auditor's report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: An auditor's report of any entity, ~~whether listed or other than listed~~, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: An auditor's report of any entity, ~~whether listed or other than listed~~, containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.
- Illustration 7: An auditor's report of any entity, ~~whether listed or other than listed~~, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

**Illustration 1 – An auditor’s report of any entity, ~~whether listed or other than listed~~, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of any entity, ~~whether listed or other than listed~~, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised)<sup>32</sup> does not apply).**

...

- **Key audit matters have been communicated in accordance with ISA 701.<sup>33</sup>**

...

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of Financial Statements<sup>34</sup>

...

### Key Audit Matters<sup>35</sup>

...

### Report on Other Legal and Regulatory Requirements

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

[The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.<sup>36</sup>]

...

<sup>32</sup> ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

<sup>33</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*. The Key Audit Matters section is required for ~~listed-public interest~~ entities only.

<sup>34</sup> The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>35</sup> The Key Audit Matters section is required for ~~listed-public interest~~ entities only.

<sup>36</sup> The name of the engagement partner is included in the auditor’s report for audits of complete sets of general purpose financial statements of ~~listed-public interest~~ entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

**Illustration 2 – An auditor’s report of a ~~listed~~-publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a ~~listed~~-publicly traded entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

## **INDEPENDENT AUDITOR’S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### **Report on the Audit of Financial Statements<sup>37</sup>**

...

### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

[The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.<sup>38</sup>]

...

**Illustration 3 – An auditor’s report of an entity other than a ~~listed~~-publicly traded entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a ~~listed~~-publicly traded entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

<sup>37</sup> The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>38</sup> The name of the engagement partner is included in the auditor’s report for audits of complete sets of general purpose financial statements of ~~listed~~-public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

**Illustration 4 – An auditor’s report of a ~~listed~~ publicly traded entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a ~~listed~~ publicly traded entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

**Illustration 5 – An auditor’s report of any entity, ~~whether listed or other than listed~~, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and has concluded that a material misstatement of the other information exists.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of any entity, ~~whether listed or other than listed~~, using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**

...

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

...

### Key Audit Matters<sup>39</sup>

...

### Report on Other Legal and Regulatory Requirements

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

[The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.<sup>40</sup>]

...

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<sup>39</sup> The Key Audit Matters section is required for listed-public interest entities only.

<sup>40</sup> The name of the engagement partner is included in the auditor’s report for audits of complete sets of general purpose financial statements of listed-public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

**Illustration 6 – An auditor’s report of any entity, ~~whether listed or other than listed~~, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of any entity, ~~whether listed or other than listed~~, using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**

...

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

...

### Key Audit Matters<sup>41</sup>

...

### Report on Other Legal and Regulatory Requirements

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

[The engagement partner on the audit resulting in this independent auditor’s report is *[name]*.<sup>42</sup>]

...

**Illustration 7 – An auditor’s report of any entity, ~~whether listed or other than listed~~, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and the adverse opinion on the consolidated financial statements also affects the other information.**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of any entity, ~~whether listed or other than listed~~, using a fair presentation framework. The audit is a group audit (i.e., ISA 600 (Revised) applies).**

...

## INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

<sup>41</sup> The Key Audit Matters section is required for ~~listed~~ public interest entities only.

<sup>42</sup> The name of the engagement partner is included in the auditor’s report for audits of complete sets of general purpose financial statements of ~~listed~~ public interest entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).



...

### Key Audit Matters<sup>43</sup>

...

### Report on Other Legal and Regulatory Requirements

*[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]*

[The engagement partner on the audit resulting in this independent auditor's report is *[name]*.<sup>44</sup>]

...

## ISA 800 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

...

### Application and Other Explanatory Material

...

#### Forming an Opinion and Reporting Considerations (Ref: Para. 11)

...

#### *Application of ISA 700 (Revised) When Reporting on Special Purpose Financial Statements*

...

#### Key Audit Matters

A16. ISA 700 (Revised) requires the auditor to communicate key audit matters in accordance with ISA 701<sup>45</sup> for audits of complete sets of general purpose financial statements of ~~listed-public interest~~ entities. For audits of special purpose financial statements, ISA 701 only applies when communication of key audit matters in the auditor's report on the special purpose financial statements is required by law or regulation or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on special purpose financial statements, ISA 701 applies in its entirety.<sup>46</sup>

#### Other Information

A17. ISA 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this ISA, reports containing or accompanying the special purpose financial statements—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented

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<sup>43</sup> The Key Audit Matters section is required for ~~listed-public interest~~ entities only.

<sup>44</sup> The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of ~~listed-public interest~~ entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA 700 (Revised), paragraph 46).

<sup>45</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>46</sup> ISA 700 (Revised), paragraph 31

in the special purpose financial statements—are considered to be annual reports for the purpose of ISA 720 (Revised). In the case of financial statements prepared using a special purpose framework, the term “similar stakeholders” includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements in ISA 720 (Revised) apply to the audit of the special purpose financial statements.

#### Name of the Engagement Partner

A18. The requirement in ISA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor’s report also applies to audits of special purpose financial statements of ~~listed~~ public interest entities.<sup>47</sup> The auditor may be required by law or regulation to include the name of the engagement partner in the auditor’s report or may otherwise decide to do so when reporting on special purpose financial statements of entities other than ~~listed~~ public interest entities.

...

## Appendix

(Ref: Para. A14)

### Illustrations of Independent Auditor’s Reports on Special Purpose Financial Statements

- Illustration 1: An auditor’s report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 2: An auditor’s report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).
- Illustration 3: An auditor’s report on a complete set of financial statements of a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

**Illustration 1: An auditor’s report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.**

...

<sup>47</sup> See ISA 700 (Revised), paragraphs 45 and A56–A58

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

...

### Basis for Opinion

...

### Emphasis of Matters – Basis of Accounting and Restriction on Distribution and Use

...

### Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>48</sup>

...

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

...

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<sup>48</sup> Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

**Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a ~~listed~~ public interest entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in Jurisdiction X (that is, a special purpose framework) to assist partners in preparing their individual income tax return. Management does not have a choice of financial reporting frameworks.**

...

## **INDEPENDENT AUDITOR'S REPORT**

[Appropriate Addressee]

### **Opinion**

...

### **Basis for Opinion**

...

### **Emphasis of Matters – Basis of Accounting and Restriction on Distribution**

...

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>49</sup>**

...

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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<sup>49</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

...

**Illustration 3: An auditor's report on a complete set of financial statements of a ~~listed~~ public interest entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a ~~listed~~ public interest entity that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**

...

## **ISA 805 (REVISED), SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT**

...

### **Application and Other Explanatory Material**

...

#### **Forming an Opinion and Reporting Considerations (Ref: Para. 11)**

...

*Application of ISA 700 (Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement*

...

## Key Audit Matters

A20. ISA 700 (Revised) requires the auditor to communicate key audit matters in accordance with ISA 701 for audits of complete sets of general purpose financial statements of ~~listed-public interest~~ entities.<sup>50</sup> For audits of a single financial statement or a specific element of a financial statement, ISA 701 only applies when communication of key audit matters in the auditor's report on such financial statements or elements is required by law or regulation, or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, ISA 701 applies in its entirety.<sup>51</sup>

## Other Information

A21. ISA 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this ISA, reports containing or accompanying the single financial statement or specific element of a financial statement—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement—are considered to be annual reports for purposes of ISA 720 (Revised). When the auditor determines that the entity plans to issue such a report, the requirements in ISA 720 (Revised) apply to the audit of the single financial statement or the element.

## Name of the Engagement Partner

A22. The requirement in ISA 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of single financial statements of ~~listed-public interest~~ entities or specific elements of financial statements of ~~listed-public interest~~ entities.<sup>52</sup> The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a single financial statement or on an element of a financial statement of entities other than ~~listed-public interest~~ entities.

...

## Appendix 2

(Ref: Para. A17)

### Illustrations of Independent Auditor's Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

- Illustration 1: An auditor's report on a single financial statement of an entity other than a ~~listed-public interest~~ entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 2: An auditor's report on a single financial statement of an entity other than a ~~listed-public interest~~ entity prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 3: An auditor's report on a specific element of a financial statement of a ~~listed-public interest~~ entity prepared in accordance with a special purpose framework (for purposes of this

<sup>50</sup> ISA 700 (Revised), paragraph 30

<sup>51</sup> ISA 700 (Revised), paragraph 31

<sup>52</sup> See ISA 700 (Revised), paragraphs 46 and A61–A63.

illustration, a compliance framework).

**Illustration 1: An auditor's report on a single financial statement of an entity other than a listed public interest entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a balance sheet (that is, a single financial statement) of an entity other than a listed public interest entity.**

...

## **INDEPENDENT AUDITOR'S REPORT**

[Appropriate Addressee]

### **Opinion**

...

### **Basis for Opinion**

...

### **Material Uncertainty Related to Going Concern**

...

### **Responsibilities of Management and Those Charged with Governance for the Financial Statement<sup>53</sup>**

...

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

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<sup>53</sup> Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

...

**Illustration 2: An auditor's report on a single financial statement of an entity other than a ~~listed~~ public interest entity prepared in accordance with a general purpose framework.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a statement of cash receipts and disbursements (that is, a single financial statement) of an entity other than a ~~listed~~ public interest entity.**

...

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

...

### Basis for Opinion

...

### Emphasis of Matter – Basis of Accounting

...

### Responsibilities of Management and Those Charged with Governance for the Financial Statement<sup>54</sup>

...

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are

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<sup>54</sup> Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.



free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

Paragraph 41(b) of ISA 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of ISA 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ...

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

...

**Illustration 3: An auditor's report on a specific element of a financial statement of a ~~listed~~ public interest entity prepared in accordance with a special purpose framework.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).**

...

## ISA 810 (REVISED), ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

...

### Appendix

(Ref: Para. A23)

#### Illustrations of Independent Auditor's Reports on Summary Financial Statements

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.

...

**Illustration 1:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements of a ~~listed~~ public interest entity.**

...

**ISRE 2400 (REVISED), ENGAGEMENTS TO REVIEW HISTORICAL FINANCIAL INFORMATION**

...

**Requirements**

...

**The Practitioner's Report**

86. The practitioner's report for the review engagement shall be in writing, and shall contain the following elements: (Ref: Para. A124–A127, A148, A150)

(a) ...

(j) A reference to the practitioner's obligation under this ISRE to comply with relevant ethical requirements;

(j)A If the relevant ethical requirements require the practitioner to publicly disclose when the practitioner applied independence requirements specific to reviews of financial statements of certain entities, the practitioner's report shall include a statement that:

(i) Identifies the jurisdiction of origin of the relevant ethical requirements or refers to the IESBA Code; and

(ii) Indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements of those entities. (Ref. Para. A137A)

(k) The date of the practitioner's report; (Ref: Para. A144–A147)

(l) The practitioner's signature; and (Ref: Para. A138)

(m) The location in the jurisdiction where the practitioner practices.

...

**Application and Other Explanatory Material**

...

**The Practitioner's Report** (Ref: Para. 86–92)

...

*The Practitioner's Responsibility* (Ref: Para. 86(f))

...

Relevant Ethical Requirements (Ref. Para. 86(j)A(ii))

A137A.Relevant ethical requirements may:

- Establish independence requirements that are applicable to reviews of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for reviews of financial statements of public interest entities in the IESBA Code. Relevant ethical requirements may also require or encourage the practitioner to determine whether it is appropriate to apply such independence requirements to reviews of financial statements of entities other than those entities specified in the relevant ethical requirements.
- Require the practitioner to publicly disclose when the practitioner applied independence requirements applicable to reviews of financial statements of certain entities. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing a review of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.<sup>55</sup> The following illustrates the disclosure in the practitioner's report when the IESBA Code comprises all of the relevant ethical requirements that apply to the review engagement:

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), as applicable to reviews of financial statements of public interest entities.

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<sup>55</sup> IESBA PIE Revisions, paragraphs R400.20-R400.21

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**Exposure Draft**  
**January 2024**  
**Comments due: May 10, 2024**

*International Ethics Standards Board  
for Accountants®*

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*Proposed International Ethics  
Standards for Sustainability  
Assurance (including  
International Independence  
Standards) (IESSA) and  
Other Revisions to the Code  
Relating to Sustainability  
Assurance and Reporting –  
Clean Version*

*This Exposure Draft is intended to be read with the  
separate Explanatory Memorandum*

**IESBA**

International  
Ethics Standards  
Board for Accountants®



## About the IESBA

The [International Ethics Standards Board for Accountants](#)<sup>®</sup> (IESBA<sup>®</sup>) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#) (IFEA). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

The structures and processes that support the operations of the IESBA are facilitated by the International Foundation for Ethics and Audit<sup>™</sup> (IFEA<sup>™</sup>).

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## REQUEST FOR COMMENTS

This Exposure Draft of Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (ED) was developed and approved by the [International Ethics Standards Board for Accountants](#)<sup>®</sup> (IESBA<sup>®</sup>).

The ED should be read along with the Explanatory Memorandum (EM) that accompanies it.

The proposals highlighted in grey – i.e., the paragraphs in “Other Considerations” in Section 5320, and Section 5390 (in Chapter 1), and the paragraphs in “Using the Work of Others” in Section 220 and “Using the Work of an Expert” in Section 320 (in Chapter 4) – were developed under the Use of Experts project. See the [Using the Work of an External Expert Exposure Draft](#) for the respective rationale. Any feedback to those proposals should be provided in response to that Exposure Draft.

The approved text of ED is published in the English language. The proposals in the Exposure Draft may be modified based on comments received before being issued in final form. Comments are requested by **May 10, 2024**. Note that requests for extensions of time cannot be accommodated due to the accelerated timeline for finalization of these proposed standards.



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## **PART 5 – INTERNATIONAL ETHICS STANDARDS FOR SUSTAINABILITY ASSURANCE (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)**

### **SECTION 5100 COMPLYING WITH PART 5**

#### **Introduction**

##### **General**

- 5100.1 It is of public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. High-quality ethics and independence standards alongside other reporting and assurance standards will help investors, customers, employees and other users of sustainability information to confidently rely on such information in their decision-making.
- 5100.1a Sustainability assurance practitioners are expected to have relevant knowledge, skills and experience to perform sustainability assurance engagements and have appropriate training to ensure their assurance skills are continually up to date with relevant developments.
- 5100.2 This Part sets out ethics (including independence) standards for sustainability assurance practitioners and comprises:
- (a) Sections 5100 to 5390 which set out ethics standards for sustainability assurance engagements and other professional services performed for sustainability assurance clients; and
  - (b) Sections 5400 to 5700 which set out independence standards for sustainability assurance engagements that are within the scope of the *International Independence Standards* in this Part as set out in paragraphs 5400.3a and 5400.3b.
- 5100.2a When a sustainability assurance practitioner performs a sustainability assurance engagement that is not within the scope of the *International Independence Standards* in this Part, Part 4B of the Code sets out the applicable independence standards.
- 5100.2b Sustainability assurance practitioners might perform professional activities and have professional and business relationships that are not covered by this Part, in which case:
- (a) Parts 1 to 4B of the Code apply to a practitioner who is a professional accountant.
  - (b) A practitioner who is not a professional accountant is encouraged to apply Parts 1 to 4B of the Code to guide the practitioner's general conduct. Adhering to the ethics (including independence) standards set out in the Code (or other ethics standards at least as demanding as the Code) in all professional activities contributes to public trust in sustainability information that is subject to assurance. This includes circumstances where the practitioner:
    - (i) Prepares or presents financial or non-financial, including sustainability, information for a client, the firm or others.
    - (ii) Faces conflicts of interest when providing professional services to entities that are not sustainability assurance clients.
    - (iii) Is offered an inducement by a supplier of the firm or by entities that are not sustainability assurance clients.

- (iv) Encounters suspected fraud or other non-compliance with laws and regulations by management, those charged with governance or other individuals at the firm.
- (v) Is asked by an entity that is not an existing sustainability assurance client to provide a second opinion on the preparation of sustainability information or the application of other standards or principles to specific circumstances.
- (vi) Provides tax planning services to entities that are not sustainability assurance clients.

5100.3 This Part sets out high quality standards of ethical behavior expected of sustainability assurance practitioners for:

- (a) Adoption by those responsible for setting ethics (including independence) standards for sustainability assurance practitioners in particular sectors or jurisdictions.
- (b) Use by firms in developing their ethics and independence policies.

5100.4 This Part establishes five fundamental principles to be complied with by all sustainability assurance practitioners. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and threats to independence. This Part also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that sustainability assurance practitioners might encounter.

### **Sustainability Information Subject to Assurance**

5100.4a Sustainability information might include comprehensive disclosures about many different topics or aspects of topics as required by the sustainability reporting framework or by law or regulation, or that an entity chooses to present in accordance with other criteria. Alternatively, the sustainability information presented by an entity might be limited to certain matters, such as metrics, targets or key performance indicators.

5100.4b The criteria used for the reporting of sustainability information on which the sustainability assurance practitioner expresses an opinion might be framework criteria, entity-developed criteria or a combination of both. Framework criteria might be embodied in law or regulation or issued by authorized or recognized bodies that follow a transparent due process.

5100.4c Depending on the criteria used, the sustainability information might be prepared on a single entity or group basis, and might include information from other entities in the reporting entity's value chain.

5100.4d Sustainability information might be presented in different ways, for example, in a separate sustainability report issued by the entity, as part of the entity's annual report (e.g., a separately identified report within the annual report, or presented as part of the management report or management commentary), or in an integrated report.

### **Requirements and Application Material**

5100.5 A1 The requirements in this Part, designated with the letter "R," impose obligations.

5100.5 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of this Part. In particular, the application material is intended to help a sustainability assurance practitioner to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of this Part, including application of the conceptual framework.

- R5100.6** A sustainability assurance practitioner shall comply with this Part.
- 5100.6 A1 Upholding the fundamental principles and compliance with the specific requirements of this Part enable sustainability assurance practitioners to act in the public interest when providing sustainability assurance.
- 5100.6 A2 Complying with this Part includes giving appropriate regard to the aim and intent of the specific requirements.
- 5100.6 A3 There might be unusual or exceptional circumstances in which a sustainability assurance practitioner believes that complying with a requirement or requirements in this Part might not be in the public interest when providing sustainability assurance or would lead to a disproportionate outcome. In those circumstances, the practitioner is encouraged to consult with an appropriate body such as a professional or regulatory body.
- 5100.6 A4 In acting in the public interest, a sustainability assurance practitioner considers not only the preferences or requirements of an individual sustainability assurance client, but also the interests of other stakeholders when performing professional activities for sustainability assurance clients.
- R5100.7** If there are circumstances where laws or regulations preclude a sustainability assurance practitioner from complying with certain provisions in this Part, those laws and regulations prevail, and the practitioner shall comply with all other provisions in this Part.
- 5100.7 A1 The principle of professional behavior requires a sustainability assurance practitioner to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in this Part. Practitioners in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

#### **Breaches of Part 5**

- R5100.8** Paragraphs R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of independence requirements in this Part. A sustainability assurance practitioner who identifies a breach of any other provision in this Part shall evaluate the significance of the breach and its impact on the practitioner's ability to comply with the fundamental principles. The practitioner shall also:
- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
  - (b) Determine whether to report the breach to the relevant parties.
- 5100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

## **SECTION 5110**

### **THE FUNDAMENTAL PRINCIPLES**

#### **General**

- 5110.1 A1 There are five fundamental principles of ethics for sustainability assurance practitioners:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
  - (b) Objectivity – to exercise professional or business judgment without being compromised by:
    - (i) Bias;
    - (ii) Conflict of interest; or
    - (iii) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.
  - (c) Professional Competence and Due Care – to:
    - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and
    - (ii) Act diligently and in accordance with applicable technical and professional standards.
  - (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
  - (e) Professional Behavior – to:
    - (i) Comply with relevant laws and regulations;
    - (ii) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
    - (iii) Avoid any conduct that the sustainability assurance practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.
- R5110.2** A sustainability assurance practitioner shall comply with each of the fundamental principles.
- 5110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a sustainability assurance practitioner. The conceptual framework establishes the approach which a practitioner is required to apply in complying with those fundamental principles. Subsections 5111 to 5115 set out requirements and application material in this Part related to each of the fundamental principles.
- 5110.2 A2 A sustainability assurance practitioner might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the practitioner might consider consulting, on an anonymous basis if necessary, with:
- Others within the firm.
  - Those charged with governance.
  - A professional body.
  - A regulatory body.
  - Legal counsel.

However, such consultation does not relieve the practitioner from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

5110.2 A3 The sustainability assurance practitioner is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

## **SUBSECTION 5111 – INTEGRITY**

**R5111.1** A sustainability assurance practitioner shall comply with the principle of integrity, which requires a practitioner to be straightforward and honest in all professional and business relationships.

5111.1 A1 Integrity involves fair dealing, truthfulness and having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

5111.1 A2 Acting appropriately involves:

- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
- (b) Challenging others as and when circumstances warrant, in a manner appropriate to the circumstances.

**R5111.2** A sustainability assurance practitioner shall not knowingly be associated with reports, returns, communications or other information where the practitioner believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

5111.2 A1 If a sustainability assurance practitioner provides a modified report in respect of such a report, return, communication or other information, the practitioner is not in breach of paragraph R5111.2.

**R5111.3** When a sustainability assurance practitioner becomes aware of having been associated with information described in paragraph R5111.2, the practitioner shall take steps to be disassociated from that information.

## **SUBSECTION 5112 – OBJECTIVITY**

**R5112.1** A sustainability assurance practitioner shall comply with the principle of objectivity, which requires a practitioner to exercise professional or business judgment without being compromised by:

- (a) Bias;
- (b) Conflict of interest; or
- (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

**R5112.2** A sustainability assurance practitioner shall not undertake a professional activity for a sustainability assurance client if a circumstance or relationship unduly influences the practitioner's professional judgment regarding that activity.



## **SUBSECTION 5113 – PROFESSIONAL COMPETENCE AND DUE CARE**

- R5113.1** A sustainability assurance practitioner shall comply with the principle of professional competence and due care, which requires a practitioner to:
- (a)** Attain and maintain professional knowledge and skills at the level required to ensure that a sustainability assurance client receives competent professional service, based on current technical and professional standards and relevant legislation; and
  - (b)** Act diligently and in accordance with applicable technical and professional standards.
- 5113.1 A1 Serving sustainability assurance clients with professional competence involves the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.
- 5113.1 A2 The knowledge and skills necessary for a professional activity vary depending on the nature of the activity being undertaken. For example, in addition to the application of any technical knowledge relevant to the professional activity, interpersonal, communication and organizational skills facilitate the practitioner's interaction with entities and individuals with whom the practitioner interacts.
- 5113.1 A3 Maintaining professional competence requires a sustainability assurance practitioner to have a continuing awareness and understanding of technical, professional, business and technology-related developments relevant to the professional activities undertaken by the practitioner. Continuing professional development enables a practitioner to develop and maintain the capabilities to perform competently within the professional environment.
- 5113.1 A4 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.
- R5113.2** In complying with the principle of professional competence and due care, a sustainability assurance practitioner shall take reasonable steps to ensure that those working in a professional capacity under the practitioner's authority have appropriate training and supervision.
- R5113.3** Where appropriate, a sustainability assurance practitioner shall make sustainability assurance clients or other users of the practitioner's professional activities, aware of the limitations inherent in the activities and explain the implications of those limitations.

## **SUBSECTION 5114 – CONFIDENTIALITY**

- R5114.1** A sustainability assurance practitioner shall comply with the principle of confidentiality, which requires a practitioner to respect the confidentiality of information acquired in the course of professional and business relationships. A practitioner shall:
- (a)** Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
  - (b)** Maintain confidentiality of information within the firm;
  - (c)** Maintain confidentiality of information disclosed by a prospective sustainability assurance client; and
  - (d)** Take reasonable steps to ensure that personnel under the practitioner's control, and individuals from whom advice and assistance are obtained, comply with the practitioner's duty of confidentiality.

5114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the sustainability assurance practitioner taking appropriate action to protect the confidentiality of such information in the course of its collection, use, transfer, storage or retention, dissemination and lawful destruction.

**R5114.2** Subject to paragraph R5114.3, a sustainability assurance practitioner shall not:

- (a) Disclose confidential information acquired in the course of professional and business relationships;
- (b) Use confidential information acquired in the course of professional and business relationships for the advantage of the practitioner, the firm or a third party;
- (c) Use or disclose any confidential information, either acquired or received in the course of a professional or business relationship, after that relationship has ended; and
- (d) Use or disclose information in respect of which the duty of confidentiality applies notwithstanding that the information has become publicly available, whether properly or improperly.

**R5114.3** As an exception to paragraph R5114.2, a sustainability assurance practitioner may disclose or use confidential information where:

- (a) There is a legal or professional duty or right to do so; or
- (b) This is authorized by the sustainability assurance client or any person with the authority to permit disclosure or use of the confidential information and this is not prohibited by law or regulation.

5114.3 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the sustainability assurance client to the sustainability assurance practitioner in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where sustainability assurance practitioners might be required or have the duty or right to disclose confidential information:

- (a) Disclosure is required by law or regulation, for example:
  - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
  - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (b) There is a professional duty or right to disclose or use, when not prohibited by law or regulation:
  - (i) To comply with the quality review, practice assessment or equivalent monitoring activity of a professional body;
  - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
  - (iii) To protect the professional interests of a practitioner in legal proceedings; or
  - (iv) To comply with technical and professional standards, including ethics requirements.

5114.3 A2 In deciding whether to disclose or use confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the sustainability assurance client authorizes the disclosure or use of information by the sustainability assurance practitioner.

- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose or use, the information include:
  - Unsubstantiated facts.
  - Incomplete information.
  - Unsubstantiated conclusions.
- The proposed means of communicating the information.
- Whether the parties to whom the information is to be provided or access is to be granted are appropriate recipients.
- Any applicable law or regulation (including those governing privacy) in a jurisdiction where disclosure might take place and, if different, the jurisdiction where the confidential information originates.

5114.3 A3 The circumstances in which a firm seeks authorization to use or disclose confidential information, include where the information is to be used for training purposes, in the development of products or technology, in research or as source material for industry or other benchmarking data or studies. Such authorization might be general in its application (for example, in relation to use of the information for internal training purposes or quality enhancement initiatives). When obtaining the authorization of the individual or entity that provided such information for use in specific circumstances, relevant considerations to be communicated (preferably in writing) might include:

- The nature of the information to be used or disclosed.
- The purpose for which the information is to be used or disclosed (for example, technology development, research or benchmarking data or studies).
- The individual or entity who will undertake the activity for which the information is to be used or disclosed.
- Whether the identity of the individual or entity that provided such information or any individuals or entities to which such information relates will be identifiable from the output of the activity for which the information is to be used or disclosed.

**R5114.4** A sustainability assurance practitioner shall continue to comply with the principle of confidentiality even after the end of the relationship between the practitioner and a sustainability assurance client. When acquiring a new sustainability assurance client, the practitioner is entitled to use prior experience but shall not use or disclose any confidential information acquired or received in the course of a professional or business relationship.

## **SUBSECTION 5115 – PROFESSIONAL BEHAVIOR**

**R5115.1** A sustainability assurance practitioner shall comply with the principle of professional behavior, which requires a practitioner to:

- (a) Comply with relevant laws and regulations;
- (b) Behave in a manner consistent with acting in the public interest in all professional activities and business relationships relating to sustainability assurance clients; and
- (c) Avoid any conduct that the practitioner knows or should know might affect public trust in sustainability information that is subject to assurance.

A sustainability assurance practitioner shall not knowingly engage in any business, occupation or activity that impairs or might impair public trust in sustainability information that is subject to assurance, and as a result would be incompatible with the fundamental principles.

5115.1 A1 Conduct that might affect public trust in sustainability information that is subject to assurance includes conduct that a reasonable and informed third party would be likely to conclude to have such effect.

**R5115.2** When undertaking marketing or promotional activities, a sustainability assurance practitioner shall be honest and truthful and shall not make:

**(a)** Exaggerated claims for the services offered by, or the qualifications or experience of, the practitioner; or

**(b)** Disparaging references or unsubstantiated comparisons to the work of others.

5115.2 A1 If a sustainability assurance practitioner is in doubt about whether a form of advertising or marketing is appropriate, the practitioner is encouraged to consult with an appropriate body, for example the relevant professional body.

## **SECTION 5120 THE CONCEPTUAL FRAMEWORK**

### **Introduction**

- 5120.1 The circumstances in which sustainability assurance practitioners operate might create threats to compliance with the fundamental principles. Section 5120 sets out requirements and application material, including a conceptual framework, to assist practitioners in complying with the fundamental principles and acting in the public interest when performing sustainability assurance engagements. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter practitioners from concluding that a situation is permitted solely because that situation is not specifically prohibited by this Part.
- 5120.2 The conceptual framework specifies an approach for a sustainability assurance practitioner to:
- (a) Identify threats to compliance with the fundamental principles;
  - (b) Evaluate the threats identified; and
  - (c) Address the threats by eliminating or reducing them to an acceptable level.

### **Requirements and Application Material**

#### **General**

- R5120.3** The sustainability assurance practitioner shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 5110.

**[Paragraphs 5120.3 A1 and R5120.4 are intentionally left blank]**

- R5120.5** When applying the conceptual framework, the sustainability assurance practitioner shall:
- (a) Have an inquiring mind;
  - (b) Exercise professional judgment; and
  - (c) Use the reasonable and informed third party test described in paragraph 5120.5 A9.

#### *Having an Inquiring Mind*

- 5120.5 A1 An inquiring mind is a prerequisite to obtaining an understanding of known facts and circumstances necessary for the proper application of the conceptual framework. Having an inquiring mind involves:
- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
  - (b) Being open and alert to a need for further investigation or other action.
- 5120.5 A2 When considering the source, relevance and sufficiency of information obtained, the sustainability assurance practitioner might consider, among other matters, whether:
- New information has emerged or there have been changes in facts and circumstances.
  - The information or its source might be influenced by bias or self-interest.
  - There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the practitioner.

- There is an inconsistency between the known facts and circumstances and the practitioner's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the information obtained.

5120.5 A3 Paragraph R5120.5 requires all sustainability assurance practitioners to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all practitioners regardless of the professional activity undertaken. Under sustainability assurance standards, including those issued by the IAASB, practitioners are also required to exercise professional skepticism, which includes a critical assessment of evidence.

#### *Exercising Professional Judgment*

5120.5 A4 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

5120.5 A5 Professional judgment is required when the sustainability assurance practitioner applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the practitioner might consider matters such as whether:

- The practitioner's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- The practitioner's own preconception or bias might be affecting the practitioner's exercise of professional judgment.

5120.5 A6 The circumstances in which sustainability assurance practitioners carry out professional activities and the factors involved vary considerably in their range and complexity. The professional judgment exercised by practitioners might need to take into account the complexity arising from the compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.

5120.5 A7 Managing complexity involves:

- Making the firm and, if appropriate, relevant stakeholders aware of the inherent uncertainties or difficulties arising from the facts and circumstances. (Ref: Para. R5113.3)
- Being alert to any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the sustainability assurance practitioner has made. (Ref: Para. R5120.5 to 5120.5 A3, and R5120.9 to 5120.9 A2)

5120.5 A8 Managing complexity might also involve:

- Analyzing and investigating as relevant, any uncertain elements, the variables and assumptions and how they are connected or interdependent.
- Using technology to analyze relevant data to inform the sustainability assurance practitioner's judgment.

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process.

### *Reasonable and Informed Third Party*

5120.5 A9 The reasonable and informed third party test is a consideration by the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the practitioner's conclusions in an impartial manner.

### **Identifying Threats**

**R5120.6** The sustainability assurance practitioner shall identify threats to compliance with the fundamental principles.

5120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the sustainability assurance practitioner's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the practitioner's profession, legislation, regulation, or the firm that can enhance the practitioner acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 5120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

5120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

5120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:

- Self-interest threat – the threat that a financial or other interest will inappropriately influence a sustainability assurance practitioner's judgment or behavior;
- Self-review threat – the threat that a sustainability assurance practitioner will not appropriately evaluate the results of a previous judgment made, or an activity performed by the practitioner or by another individual within the practitioner's firm, on which the practitioner will rely when forming a judgment as part of performing a current activity;
- Advocacy threat – the threat that a sustainability assurance practitioner will promote a sustainability assurance client's position to the point that the practitioner's objectivity is compromised;
- Familiarity threat – the threat that due to a long or close relationship with a sustainability assurance client, a sustainability assurance practitioner will be too sympathetic to their interests or too accepting of their work; and
- Intimidation threat – the threat that a sustainability assurance practitioner will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the practitioner.

5120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

### **Evaluating Threats**

**R5120.7** When the sustainability assurance practitioner identifies a threat to compliance with the fundamental principles, the practitioner shall evaluate whether such a threat is at an acceptable level.

#### *Acceptable Level*

5120.7 A1 An acceptable level is a level at which a sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the practitioner complies with the fundamental principles.

#### *Factors Relevant in Evaluating the Level of Threats*

5120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the sustainability assurance practitioner's evaluation of threats, as is the combined effect of multiple threats, if applicable.

5120.8 A2 The existence of conditions, policies and procedures described in paragraph 5120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:

- Corporate governance requirements.
- Educational, training and experience requirements.
- Effective complaint systems which enable the sustainability assurance practitioner and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

#### *Consideration of New Information or Changes in Facts and Circumstances*

**R5120.9** If the sustainability assurance practitioner becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the practitioner shall re-evaluate and address that threat accordingly.

5120.9 A1 Remaining alert throughout the professional activity assists the sustainability assurance practitioner in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the practitioner's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

5120.9 A2 If new information results in the identification of a new threat, the sustainability assurance practitioner is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R5120.7 and R5120.10).



## Addressing Threats

**R5120.10** If the sustainability assurance practitioner determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the practitioner shall address the threats by eliminating them or reducing them to an acceptable level. The practitioner shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

### *Actions to Eliminate Threats*

5120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

### *Safeguards*

5120.10 A2 Safeguards are actions, individually or in combination, that the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

### *Consideration of Significant Judgments Made and Overall Conclusions Reached*

**R5120.11** The sustainability assurance practitioner shall form an overall conclusion about whether the actions that the practitioner takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the practitioner shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

## Other Considerations when Applying the Conceptual Framework

### *Bias*

5120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

5120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.

- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

5120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.
- Receiving training related to the identification of bias as part of professional development.

#### *Firm Culture*

5120.13 A1 The effective application of the conceptual framework by a sustainability assurance practitioner is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in this Part is promoted through the internal culture of the firm.

5120.13 A2 The promotion of an ethical culture within a firm is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the firm;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The firm adheres to ethical values in its dealings with third parties.

5120.13 A3 Sustainability assurance practitioners are expected to:

- (a) Encourage and promote an ethics-based culture in their firm, taking into account their position and seniority; and
- (b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioners or the firm has a professional or business relationship.

### **Considerations for Sustainability Assurance Engagements**

#### *Additional Consideration for Firm Culture*

5120.14 A1 Quality management standards, such as ISQM 1, might address firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for sustainability assurance.

### *Independence*

- 5120.15 A1 Sustainability assurance practitioners are required by Sections 5400 to 5700 and Part 4B, as applicable, to be independent when performing sustainability assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:
- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
  - (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm’s or a sustainability assurance team member’s integrity, objectivity or professional skepticism has been compromised.
- 5120.15 A2 Sections 5400 to 5700 and Part 4B set out requirements and application material on how to apply the conceptual framework to maintain independence when performing sustainability assurance engagements. Sustainability assurance practitioners and firms are required to comply with these requirements and application material in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 5120.6 A3 are also the categories of threats to compliance with independence requirements.
- 5120.15 A3 Conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of sustainability assurance engagements, a system of quality management designed, implemented and operated by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

### *Professional Skepticism*

- 5120.16 A1 Under sustainability assurance standards, including those issued by the IAASB, sustainability assurance practitioners are required to exercise professional skepticism when planning and performing sustainability assurance engagements. Professional skepticism and the fundamental principles that are described in Section 5110 are inter-related concepts.
- 5120.16 A2 In a sustainability assurance engagement that is within the scope of the *International Independence Standards* in this Part, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:
- *Integrity* requires the sustainability assurance practitioner to be straightforward and honest. For example, the practitioner complies with the principle of integrity by:
    - Being straightforward and honest when raising concerns about a position taken by a sustainability assurance client.
    - Pursuing inquiries about inconsistent information and seeking further evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
    - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:

- (a) Standing one's ground when confronted by dilemmas and difficult situations; or
- (b) Challenging others as and when circumstances warrant,  
in a manner appropriate to the circumstances.

In doing so, the practitioner demonstrates the critical assessment of evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the sustainability assurance practitioner to exercise professional or business judgment without being compromised by:
  - (a) Bias;
  - (b) Conflict of interest; or
  - (c) Undue influence of, or undue reliance on, individuals, organizations, technology or other factors.

For example, the practitioner complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the sustainability assurance client, that might compromise the practitioner's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the practitioner's judgment when evaluating the sufficiency and appropriateness of evidence related to a matter material to the client's sustainability information.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the sustainability assurance practitioner to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the practitioner complies with the principle of professional competence and due care by:
  - (a) Applying knowledge that is relevant to a particular sustainability assurance client's industry and business activities in order to properly identify risks of material misstatement;
  - (b) Designing and performing appropriate assurance procedures; and
  - (c) Applying relevant knowledge when critically assessing whether evidence is sufficient and appropriate in the circumstances.

In doing so, the practitioner behaves in a manner that contributes to the exercise of professional skepticism.

**SECTION 5270****PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES****Introduction**

- 5270.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5270.2 Pressure exerted on, or by, a sustainability assurance practitioner might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

**Requirements and Application Material****General**

- R5270.3** A sustainability assurance practitioner shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
  - (b) Place pressure on others that the practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 5270.3 A1 A sustainability assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity for a sustainability assurance client. Pressure might be explicit or implicit and might come from:
- Within the firm, for example, from a colleague or superior.
  - An external individual or organization such as the sustainability assurance client or a vendor, customer or lender of the firm.
  - Internal or external targets and expectations.
- 5270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
    - Pressure from a family member bidding to act as a counterparty to a transaction involving a sustainability assurance client to select the family member over other counterparties.

See also Section 5310, *Conflicts of Interest*.
  - Pressure to act without sufficient expertise or due care:
    - Pressure from superiors to inappropriately reduce the extent of work performed.
    - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
    - Pressure from a sustainability assurance client not to enquire about strategy-related assumptions used in the forward-looking information prepared by the client and subject to assurance procedures.

- Pressure related to inducements:
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential or existing sustainability assurance clients.

See also Section 5340, *Inducements, Including Gifts and Hospitality*.
- Pressure related to non-compliance with laws and regulations:
  - Pressure to overlook potential breaches of environmental or safety regulations applicable to a sustainability assurance client.

See also Section 5360, *Responding to Non-compliance with Laws and Regulations*.
- Pressure related to level of fees
  - Pressure exerted by a superior or a colleague of a sustainability assurance practitioner to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 5330, *Fees and Other Types of Remuneration*

5270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the firm including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that personnel will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the firm has established, such as ethics or human resources policies that address pressure.

5270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the sustainability assurance practitioner to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the practitioner's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the firm, including when appropriate, explaining any consequential risks to the firm, for example with:
  - Higher levels of management.
  - Internal or external auditors.
  - Those charged with governance.
- Disclosing the matter in line with the firm's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.

- Consulting with:
  - A colleague, superior, human resources personnel, or another sustainability assurance practitioner;
  - Relevant professional or regulatory bodies or industry associations; or
  - Legal counsel.

5270.3 A5 An example of an action that might eliminate threats created by pressure is the sustainability assurance practitioner's request for a restructure of, or segregation of, certain responsibilities and duties relating to the professional services performed for a sustainability assurance client so that the practitioner is no longer involved with the individual or entity exerting the pressure.

**Documentation**

5270.4 A1 The sustainability assurance practitioner is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

## **SECTION 5300**

### **APPLYING THE CONCEPTUAL FRAMEWORK**

#### **Introduction**

5300.1 Sections 5300 to 5390 set out requirements and application material for sustainability assurance practitioners when applying the conceptual framework set out in Section 5120. They do not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by practitioners, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires sustainability assurance practitioners to be alert for such facts and circumstances.

**[Paragraphs 5300.2 and 5300.3 are intentionally left blank]**

#### **Requirements and Application Material**

##### **General**

**R5300.4** A sustainability assurance practitioner shall comply with the fundamental principles set out in Section 5110 and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to compliance with the fundamental principles.

**[Paragraphs R5300.5 and 5300.5 A1 are intentionally left blank]**

5300.5 A2 The more senior the position of a sustainability assurance practitioner, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, practitioners are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the practitioner or the firm has a professional or business relationship in accordance with paragraph 5120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

(Ref: Paras. 5120.13 A1 to 5120.13 A3).

#### **Identifying Threats**

5300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 5120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a sustainability assurance practitioner when undertaking a professional service for a sustainability assurance client:



(a) Self-interest Threats

- A sustainability assurance practitioner having a direct financial interest in a sustainability assurance client.
- A sustainability assurance practitioner quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A sustainability assurance practitioner having a close business relationship with a sustainability assurance client.
- A sustainability assurance practitioner having incentives linked to the outcome of a sustainability assurance engagement.
- A sustainability assurance practitioner discovering a significant error when evaluating the results of a previous professional service performed by a member of the practitioner's firm.

(b) Self-review Threats

- A sustainability assurance practitioner issuing an assurance report on the effectiveness of the operation of systems that generate sustainability information after designing or implementing the systems.
- A sustainability assurance practitioner having contributed to the preparation of data used to generate information that is subject to procedures in the sustainability assurance engagement.
- A sustainability assurance practitioner having provided sustainability-related services other than sustainability assurance engagements for an entity in a sustainability assurance client's value chain, the outcome of which is subject to procedures in the sustainability assurance engagement for the client.
- A sustainability assurance practitioner having provided a valuation or forecasting service the outcome of which is subject to procedures in the sustainability assurance engagement for the sustainability assurance client.

(c) Advocacy Threats

- A sustainability assurance practitioner promoting the interests of a sustainability assurance client.
- A sustainability assurance practitioner acting as an advocate on behalf of a sustainability assurance client in litigation or disputes with third parties.
- A sustainability assurance practitioner lobbying in favor of legislation on behalf of a sustainability assurance client.
- A sustainability assurance practitioner promoting a particular sustainability-related initiative, product or service on behalf of a sustainability assurance client.

(d) Familiarity Threats

- A sustainability assurance practitioner having a close or immediate family member who is a director or officer of the sustainability assurance client.

- A director or officer of the sustainability assurance client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement leader.
- A sustainability assurance team member having a long association with the sustainability assurance client.
- An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.

(e) Intimidation Threats

- A sustainability assurance practitioner being threatened with dismissal from a professional service performed for a sustainability assurance client or the firm because of a disagreement about a professional matter.
- A sustainability assurance practitioner feeling pressured to agree with the judgment of a sustainability assurance client because the client has more expertise on the matter in question.
- A sustainability assurance practitioner being informed that a planned promotion will not occur unless the practitioner agrees with an inappropriate sustainability-related analysis or conclusion.
- A sustainability assurance practitioner having accepted a significant gift from a sustainability assurance client and being threatened that acceptance of this gift will be made public.

*Identifying Threats Associated with the Use of Technology*

5300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a sustainability assurance practitioner when undertaking a professional activity for a sustainability assurance client:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The practitioner might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgment of the practitioner or firm.

**Evaluating Threats**

5300.7 A1 The conditions, policies and procedures described in paragraphs 5120.6 A1 and 5120.8 A2 might impact the evaluation of whether a threat to compliance with the fundamental principles is at an acceptable level. Such conditions, policies and procedures might relate to:

- (a) The sustainability assurance client and its operating environment; and
- (b) The firm and its operating environment.

5300.7 A2 The sustainability assurance practitioner's evaluation of the level of a threat is also impacted by the nature and scope of the professional service.

*The Sustainability Assurance Client and its Operating Environment*

5300.7 A3 The sustainability assurance practitioner's evaluation of the level of a threat might be impacted by whether the sustainability assurance client is:

- (a) A public interest entity;
- (b) An audit client; or
- (c) A non-assurance client.

For example, providing a non-assurance service to a sustainability assurance client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the sustainability assurance engagement.

5300.7 A4 The corporate governance structure, including the leadership of a sustainability assurance client, might promote compliance with the fundamental principles. Accordingly, a sustainability assurance practitioner's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.
- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

5300.7 A4a The sustainability assurance practitioner's evaluation of the level of a threat to compliance with the fundamental principles might be impacted by the quantitative and qualitative characteristics of a sustainability assurance client's value chain. For example, a threat to compliance with the principle of professional competence and due care might be created if the sustainability information that is subject to assurance comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

*The Firm and its Operating Environment*

5300.7 A5 A sustainability assurance practitioner's evaluation of the level of a threat might be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that sustainability assurance team members will act in the public interest when providing sustainability assurance.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.

- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single sustainability assurance client.
- The engagement leader having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a sustainability assurance client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

5300.7 A6 The sustainability assurance practitioner's evaluation of the level of a threat associated with the use of technology might also be impacted by the work environment within the practitioner's firm and its operating environment. For example:

- Level of corporate oversight and internal controls over the technology.
- Assessments of the quality and functionality of technology that are undertaken by a third-party.
- Training that is provided regularly to all relevant employees so they obtain and maintain the professional competence to sufficiently understand, use and explain the technology and its appropriateness for the purpose intended.

*Consideration of New Information or Changes in Facts and Circumstances*

5300.7 A7 New information or changes in facts and circumstances might:

- (a) Impact the level of a threat; or
- (b) Affect the sustainability assurance practitioner's conclusions about whether safeguards applied continue to address identified threats as intended.

In these situations, actions that were already implemented as safeguards might no longer be effective in addressing threats. Accordingly, the application of the conceptual framework requires that the sustainability assurance practitioner re-evaluate and address the threats accordingly. (Ref: Paras. R5120.9 and R5120.10).

5300.7 A8 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the sustainability assurance client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the sustainability assurance practitioner is jointly engaged by a sustainability assurance client and another client and a dispute emerges between the two clients.
- When there is a change in the sustainability assurance practitioner's personal or immediate family relationships.

## Addressing Threats

5300.8 A1 Paragraphs R5120.10 to 5120.10 A2 set out requirements and application material for addressing threats that are not at an acceptable level.

### *Examples of Safeguards*

5300.8 A2 Safeguards vary depending on the facts and circumstances. Examples of actions that in certain circumstances might be safeguards to address threats include:

- Assigning additional time and qualified personnel to required tasks when an engagement has been accepted might address a self-interest threat.
- Having an appropriate reviewer who was not a member of the team review the work performed or advise as necessary might address a self-review threat.
- Using different leaders and teams with separate reporting lines for the provision of non-assurance services to a sustainability assurance client might address self-review, advocacy or familiarity threats.
- Involving another firm to perform or re-perform part of the engagement might address self-interest, self-review, advocacy, familiarity or intimidation threats.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements received for recommending services or products might address a self-interest threat.
- Separating teams when dealing with matters of a confidential nature might address a self-interest threat.

5300.8 A3 The remaining sections of this Part describe certain threats that might arise during the course of performing professional services for sustainability assurance clients and include examples of actions that might address threats.

### Appropriate Reviewer

5300.8 A4 An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided to a sustainability assurance client. Such an individual might be a sustainability assurance practitioner.

## Communicating with Those Charged with Governance

**R5300.9** When communicating with those charged with governance in accordance with this Part, a sustainability assurance practitioner shall determine the appropriate individual(s) within the sustainability assurance client's governance structure with whom to communicate. If the practitioner communicates with a subgroup of those charged with governance, the practitioner shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

5300.9 A1 In determining with whom to communicate, a sustainability assurance practitioner might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

5300.9 A2 Examples of a subgroup of those charged with governance include an audit committee or another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

**R5300.10** If a sustainability assurance practitioner communicates with individuals who have management responsibilities as well as governance responsibilities, the practitioner shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the practitioner would otherwise communicate.

5300.10 A1 In some circumstances, all of those charged with governance are involved in managing the sustainability assurance client, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the sustainability assurance practitioner has satisfied the requirement to communicate with those charged with governance.

## **SECTION 5310 CONFLICTS OF INTEREST**

### **Introduction**

- 5310.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5310.2 A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:
- (a) A sustainability assurance practitioner provides a professional service related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict; or
  - (b) The interests of a sustainability assurance practitioner with respect to a particular matter and the interests of the sustainability assurance client for whom the practitioner provides a professional service related to that matter are in conflict.
- 5310.3 This section sets out specific requirements and application material relevant to applying the conceptual framework to conflicts of interest. When a sustainability assurance practitioner performs a sustainability assurance engagement, independence is also required in accordance with this Part or Part 4B, as applicable.

### **Requirements and Application Material**

#### **General**

- R5310.4** A sustainability assurance practitioner shall not allow a conflict of interest to compromise professional or business judgment.
- 5310.4 A1 Examples of circumstances that might create a conflict of interest include:
- Providing a transaction advisory service to a client seeking to acquire a sustainability assurance client, where the firm has obtained confidential information during the course of the sustainability assurance engagement that might be relevant to the transaction.
  - Providing advice to a sustainability assurance client and another client at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
  - Representing a sustainability assurance client and another client in the same matter who are in a legal dispute with each other.
  - Advising a sustainability assurance client to invest in a business in which, for example, the spouse of the practitioner has a financial interest.
  - Providing strategic advice to a sustainability assurance client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
  - Advising a sustainability assurance client on acquiring a business which the firm is also interested in acquiring.
  - Advising a sustainability assurance client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.

## Conflict Identification

### *General*

**R5310.5** Before accepting a new sustainability assurance client relationship, engagement, or business relationship, a sustainability assurance practitioner shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The service and its implication for relevant parties.

5310.5 A1 An effective conflict identification process assists a sustainability assurance practitioner when taking reasonable steps to identify interests and relationships that might create an actual or potential conflict of interest, both before determining whether to accept an engagement and throughout the engagement. Such a process includes considering matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of the practitioner being able to address threats created by the conflict of interest.

5310.5 A2 An effective process to identify actual or potential conflicts of interest will take into account factors such as:

- The nature of the professional services provided.
- The size of the firm.
- The size and nature of the client base.
- The structure of the firm, for example, the number and geographic location of offices.

5310.5 A3 More information on client acceptance is set out in Section 5320, *Professional Appointments*.

### *Changes in Circumstances*

**R5310.6** A sustainability assurance practitioner shall remain alert to changes over time in the nature of services, interests and relationships that might create a conflict of interest while performing an engagement.

5310.6 A1 The nature of services, interests and relationships might change during the engagement. This is particularly true when a sustainability assurance practitioner is asked to conduct an engagement in a situation that might become adversarial, even though the parties who engage the practitioner initially might not be involved in a dispute.

### *Network Firms*

**R5310.7** If the firm is a member of a network, a sustainability assurance practitioner shall consider conflicts of interest that the practitioner has reason to believe might exist or arise due to interests and relationships of a network firm.

5310.7 A1 Factors to consider when identifying interests and relationships involving a network firm include:

- The nature of the professional services provided.
- The clients served by the network.
- The geographic locations of all relevant parties.



### Threats Created by Conflicts of Interest

- 5310.8 A1 In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely the level of the threat is not at an acceptable level.
- 5310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for a sustainability assurance client and another client whose interests with respect to that matter are in conflict. These measures include:
- The existence of separate practice areas for specialty functions within the firm, which might act as a barrier to the passing of confidential client information between practice areas.
  - Policies and procedures to limit access to client files.
  - Confidentiality agreements signed by personnel and leaders of the firm.
  - Separation of confidential information physically and electronically.
  - Specific and dedicated training and communication.
- 5310.8 A3 Examples of actions that might be safeguards to address threats created by a conflict of interest include:
- Having separate teams who are provided with clear policies and procedures on maintaining confidentiality.
  - Having an appropriate reviewer, who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

### Disclosure and Consent

#### *General*

- R5310.9** A sustainability assurance practitioner shall exercise professional judgment to determine whether the nature and significance of a conflict of interest are such that specific disclosure and explicit consent are necessary when addressing the threat created by the conflict of interest.
- 5310.9 A1 Factors to consider when determining whether specific disclosure and explicit consent are necessary include:
- The circumstances creating the conflict of interest.
  - The parties that might be affected.
  - The nature of the issues that might arise.
  - The potential for the particular matter to develop in an unexpected manner.
- 5310.9 A2 Disclosure and consent might take different forms, for example:
- General disclosure to clients of circumstances where, as is common commercial practice, the sustainability assurance practitioner does not provide professional services exclusively to any one client (for example, in a particular professional service and market sector). This enables the client to provide general consent accordingly. For example, a practitioner might make general disclosure in the standard terms and conditions for the engagement.

- Specific disclosure to affected clients of the circumstances of the particular conflict in sufficient detail to enable the client to make an informed decision about the matter and to provide explicit consent accordingly. Such disclosure might include a detailed presentation of the circumstances and a comprehensive explanation of any planned safeguards and the risks involved.
- Consent might be implied by clients' conduct in circumstances where the sustainability assurance practitioner has sufficient evidence to conclude that clients know the circumstances at the outset and have accepted the conflict of interest if they do not raise an objection to the existence of the conflict.

5310.9 A3 It is generally necessary:

- (a) To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and
- (b) To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.

5310.9 A4 If such disclosure or consent is not in writing, the sustainability assurance practitioner is encouraged to document:

- (a) The nature of the circumstances giving rise to the conflict of interest;
- (b) The safeguards applied to address the threats when applicable; and
- (c) The consent obtained.

*When Explicit Consent is Refused*

**R5310.10** If a sustainability assurance practitioner has determined that explicit consent is necessary in accordance with paragraph R5310.9 and the sustainability assurance client has refused to provide consent, the practitioner shall either:

- (a) End or decline to perform professional services that would result in the conflict of interest; or
- (b) End relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

**Confidentiality**

*General*

**R5310.11** A sustainability assurance practitioner shall remain alert to the principle of confidentiality, including when making disclosures or sharing information within the firm or network and seeking guidance from third parties.

5310.11 A1 Subsection 5114 sets out requirements and application material relevant to situations that might create a threat to compliance with the principle of confidentiality.

*When Disclosure to Obtain Consent would Breach Confidentiality*

**R5310.12** When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if:

- (a) The firm does not act in an advocacy role for a sustainability assurance client in an adversarial position against another client in the same matter;

- (b)** Specific measures are in place to prevent disclosure of confidential information between the teams serving the sustainability assurance client and the other client; and
- (c)** The firm is satisfied that a reasonable and informed third party would be likely to conclude that it is appropriate for the firm to accept or continue the engagement because a restriction on the firm's ability to provide the professional service would produce a disproportionate adverse outcome for the clients or other relevant third parties.

5310.12 A1 A breach of confidentiality might arise, for example, when seeking consent to perform:

- A transaction-related service for a sustainability assurance client in a hostile takeover of another client of the firm.
- A forensic investigation for a client regarding a suspected fraud, where the firm has confidential information from its work for a sustainability assurance client who might be involved in the fraud.

#### **Documentation**

**R5310.13** In the circumstances set out in paragraph R5310.12, the sustainability assurance practitioner shall document:

- (a)** The nature of the circumstances, including the role that the practitioner is to undertake;
- (b)** The specific measures in place to prevent disclosure of information between the teams serving the sustainability assurance client and the other client; and
- (c)** Why it is appropriate to accept or continue the engagement.

## **SECTION 5320**

### **PROFESSIONAL APPOINTMENTS**

#### **Introduction**

- 5320.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5320.2 Acceptance of a new sustainability assurance client relationship or changes in an existing engagement might create a threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Client and Engagement Acceptance**

###### *General*

- 5320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the sustainability assurance client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.
- 5320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance and business activities.
  - The sustainability assurance client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 5320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 5320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
    - The nature of the sustainability assurance client's business;
    - The complexity of its operations;
    - The quantitative and qualitative characteristics of the sustainability assurance client's value chain;
    - The requirements of the engagement; and
    - The purpose, nature and scope of the work to be performed.
  - Knowledge of relevant industries or subject matter.
  - Experience with relevant regulatory or reporting requirements.
  - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond

to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.

- The level of fees and the extent to which they have regard to the resources required, taking into account the sustainability assurance practitioner's commercial and market priorities.

5320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

## Changes in a Professional Appointment

### *General*

**R5320.4** A sustainability assurance practitioner shall determine whether there are any reasons for not accepting an engagement when the practitioner:

- (a) Is asked by a potential sustainability assurance client to replace another sustainability assurance practitioner;
- (b) Considers tendering for an engagement held by a different practitioner for a sustainability assurance client; or
- (c) Considers undertaking work for a sustainability assurance client that is complementary or additional to that of a different practitioner.

5320.4 A1 There might be reasons for not accepting an engagement. One such reason might be if a threat created by the facts and circumstances cannot be addressed by applying safeguards. For example, there might be a self-interest threat to compliance with the principle of professional competence and due care if a sustainability assurance practitioner accepts the engagement before knowing all the relevant facts.

5320.4 A2 If a sustainability assurance practitioner is asked by a sustainability assurance client to undertake work that is complementary or additional to the work of an existing or predecessor practitioner, a self-interest threat to compliance with the principle of professional competence and due care might be created, for example, as a result of incomplete information.

5320.4 A3 A factor that is relevant in evaluating the level of such a threat is whether tenders state that, before accepting the engagement, contact with the existing or predecessor practitioner will be requested. This contact gives the proposed practitioner the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

5320.4 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Asking the existing or predecessor practitioner to provide any known information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. For example, inquiry might reveal previously undisclosed pertinent facts and might indicate disagreements with the existing or predecessor practitioner that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations regarding senior management or those charged with governance of the sustainability assurance client.

*Communicating with the Existing or Predecessor Practitioner*

5320.5 A1 A proposed practitioner will usually need the sustainability assurance client's permission, preferably in writing, to initiate discussions with the existing or predecessor practitioner.

**R5320.6** If unable to communicate with the existing or predecessor practitioner, the proposed practitioner shall take other reasonable steps to obtain information about any possible threats.

*Communicating with the Proposed Practitioner*

**R5320.7** When an existing or predecessor practitioner is asked to respond to a communication from a proposed practitioner, the existing or predecessor practitioner shall:

- (a) Comply with relevant laws and regulations governing the request; and
- (b) Provide any information honestly and unambiguously.

5320.7 A1 An existing or predecessor practitioner is bound by confidentiality. Whether the existing or predecessor practitioner is permitted or required to discuss the affairs of a sustainability assurance client with a proposed practitioner will depend on the nature of the engagement and:

- (a) Whether the existing or predecessor practitioner has permission from the sustainability assurance client for the discussion; and
- (b) The legal and ethics requirements relating to such communications and disclosure, which might vary by jurisdiction.

5320.7 A2 Circumstances where a sustainability assurance practitioner is or might be required to disclose confidential information, or when disclosure might be appropriate, are set out in paragraph 5114.3 A1.

*Changes in Sustainability Assurance Appointments*

**R5320.8** In the case of a sustainability assurance engagement within the scope of the *International Independence Standards* in this Part, a sustainability assurance practitioner shall request the existing or predecessor practitioner to provide known information regarding any facts or other information of which, in the existing or predecessor practitioner's opinion, the proposed practitioner needs to be aware before deciding whether to accept the engagement. Except for the circumstances involving non-compliance or suspected non-compliance with laws and regulations set out in paragraphs R5360.21 and R5360.22:

- (a) If the sustainability assurance client consents to the existing or predecessor practitioner disclosing any such facts or other information, the existing or predecessor practitioner shall provide the information honestly and unambiguously; and
- (b) If the sustainability assurance client fails or refuses to grant the existing or predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, the existing or predecessor practitioner shall disclose this fact to the proposed practitioner, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

**Client and Engagement Continuance**

**R5320.9** For a recurring engagement for a sustainability assurance client, a sustainability assurance practitioner shall periodically review whether to continue with the engagement.

5320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the sustainability assurance practitioner to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity

might be created by improper sustainability reporting, such as changes in measurement methodology to create the appearance of a positive trend in a key performance indicator.

### Using the Output of Technology

**R5320.10** When a sustainability assurance practitioner intends to use the output of technology in the course of undertaking a professional activity for a sustainability assurance client, the practitioner shall determine whether the use is appropriate for the intended purpose.

5320.10 A1 Factors to consider when a sustainability assurance practitioner intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the practitioner has the ability, or access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The firm's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

### Other Considerations

5320.11 A1 When a sustainability assurance practitioner is considering using the output of technology, a consideration is whether the practitioner is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

5320.11 A2 When a sustainability assurance practitioner intends to use the work of an external expert, the requirements and application material set out in Section 5390 apply.

## **SECTION 5325**

### **OBJECTIVITY OF AN ENGAGEMENT QUALITY REVIEWER AND OTHER APPROPRIATE REVIEWERS**

#### **Introduction**

- 5325.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5325.2 Appointing an engagement quality reviewer who has involvement in the work being reviewed or close relationships with those responsible for performing that work might create threats to compliance with the principle of objectivity.
- 5325.3 This section sets out specific application material relevant to applying the conceptual framework in relation to the objectivity of an engagement quality reviewer for a sustainability assurance client.
- 5325.4 An engagement quality reviewer is also an example of an appropriate reviewer as described in paragraph 5300.8 A4. Therefore, the application material in this section might apply in circumstances where a sustainability assurance practitioner appoints an appropriate reviewer to review work performed as a safeguard to address identified threats.

#### **Application Material**

##### **General**

- 5325.5 A1 Quality engagements are achieved through planning and performing engagements and reporting on them in accordance with professional standards and applicable legal and regulatory requirements. For example, ISQM 1 establishes the firm's responsibilities for its system of quality management and requires the firm to design and implement responses to address quality risks related to engagement performance. Such responses include establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2.
- 5325.5 A2 An engagement quality reviewer is a leader, partner, or other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

##### **Identifying Threats**

- 5325.6 A1 The following are examples of circumstances where threats to the objectivity of an individual appointed as an engagement quality reviewer might be created:
- (a) Self-interest threat
    - Two engagement leaders each serving as an engagement quality reviewer for the other's engagement.
  - (b) Self-review threat
    - An individual serving as an engagement quality reviewer on a sustainability assurance engagement after previously serving as the engagement leader.
  - (c) Familiarity threat
    - An individual serving as an engagement quality reviewer has a close relationship with or is an immediate family member of another individual who is involved in the engagement.



(d) Intimidation threat

- An individual serving as an engagement quality reviewer for an engagement has a direct reporting line to the leader responsible for the engagement.

**Evaluating Threats**

5325.7 A1 Factors that are relevant in evaluating the level of threats to the objectivity of an individual appointed as an engagement quality reviewer include:

- The role and seniority of the individual.
- The nature of the individual's relationship with others involved on the engagement.
- The length of time the individual was previously involved with the engagement and the individual's role.
- When the individual was last involved in the engagement prior to being appointed as engagement quality reviewer and any subsequent relevant changes to the circumstances of the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

**Addressing Threats**

5325.8 A1 An example of an action that might eliminate an intimidation threat is reassigning reporting responsibilities within the firm.

5325.8 A2 An example of an action that might be a safeguard to address a self-review threat is implementing a period of sufficient duration (a cooling-off period) before the individual who was on the engagement is appointed as an engagement quality reviewer.

**Cooling-off Period**

5325.8 A3 Quality management standards might require the firm to establish policies or procedures that specify, as a condition for eligibility, a cooling-off period before the engagement leader can assume the role of engagement quality reviewer. This serves to enable compliance with the principle of objectivity and the consistent performance of quality engagements. For example, ISQM 2 requires a cooling-off period of two years.

5325.8 A4 The cooling-off period that might be required by quality management standards such as ISQM 2 is distinct from, and does not modify, the leader rotation requirements in Section 5540, which are designed to address threats to independence created by long association with a sustainability assurance client.

## **SECTION 5330 FEES AND OTHER TYPES OF REMUNERATION**

### **Introduction**

- 5330.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5330.2 The level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

### **Application Material**

#### **Level of Fees**

- 5330.3 A1 The level of fees might impact a sustainability assurance practitioner's ability to perform professional services for sustainability assurance clients in accordance with technical and professional standards.
- 5330.3 A2 A sustainability assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than a different practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with applicable technical and professional standards.
- 5330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the sustainability assurance client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered.
  - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 5330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
  - Having an appropriate reviewer review the work performed.

#### **Contingent Fees**

- 5330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.
- 5330.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the engagement.
  - The range of possible fee amounts.
  - The basis or metrics for determining the fee.
  - Disclosure to intended users of the work performed by the sustainability assurance practitioner and the basis of remuneration.
  - Quality management policies and procedures.
  - Whether an independent third party is to review the outcome or result of the work.

- Whether the level of the fee is set by an independent third party such as a regulatory body.

5330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the service review the work performed by the sustainability assurance practitioner.
- Obtaining an advance written agreement with the sustainability assurance client on the basis of remuneration.

5330.4 A4 Requirements and application material related to contingent fees for services provided to sustainability assurance clients are set out in Section 5410 and Section 905.

### **Referral Fees or Commissions**

5330.5 A1 A self-interest threat to compliance with the principles of objectivity and professional competence and due care is created if a sustainability assurance practitioner pays or receives a referral fee or receives a commission relating to a sustainability assurance client. Such referral fees or commissions include, for example:

- A fee paid to a third party for that party referring a sustainability assurance client to the practitioner.
- A fee received from a third party for the practitioner referring a continuing sustainability assurance client to that party.
- A commission received from a third party (for example, a software vendor) in connection with the sale of goods or services to a sustainability assurance client.

5330.5 A2 Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining an advance agreement from the sustainability assurance client for commission arrangements in connection with the sale by another party of goods or services to the client might address a self-interest threat.
- Disclosing to sustainability assurance clients any referral fees or commission arrangements paid to, or received from, another sustainability assurance practitioner or third party for recommending services or products might address a self-interest threat.

### **Purchase or Sale of a Firm**

5330.6 A1 A sustainability assurance practitioner may purchase all or part of another firm on the basis that payments will be made to individuals formerly owning the firm or to their heirs or estates. Such payments are not referral fees or commissions for the purposes of this section.

## **SECTION 5340**

### **INDUCEMENTS, INCLUDING GIFTS AND HOSPITALITY**

#### **Introduction**

- 5340.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5340.2 Offering or accepting inducements might create a self-interest, familiarity or intimidation threat to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional behavior.
- 5340.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the offering and accepting of inducements when performing professional services for sustainability assurance clients that does not constitute non-compliance with laws and regulations. This section also requires a sustainability assurance practitioner to comply with relevant laws and regulations when offering or accepting inducements.

#### **Requirements and Application Material**

##### **General**

- 5340.4 A1 An inducement is an object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior. Inducements can range from minor acts of hospitality between sustainability assurance practitioners and existing or prospective sustainability assurance clients to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:
- Gifts.
  - Hospitality.
  - Entertainment.
  - Political or charitable donations.
  - Appeals to friendship and loyalty.
  - Employment or other commercial opportunities.
  - Preferential treatment, rights or privileges.

##### **Inducements Prohibited by Laws and Regulations**

- R5340.5** In many jurisdictions, there are laws and regulations, such as those related to bribery and corruption, that prohibit the offering or accepting of inducements in certain circumstances. The sustainability assurance practitioner shall obtain an understanding of relevant laws and regulations and comply with them when the practitioner encounters such circumstances.

##### **Inducements Not Prohibited by Laws and Regulations**

- 5340.6 A1 The offering or accepting of inducements that is not prohibited by laws and regulations might still create threats to compliance with the fundamental principles.

*Inducements with Intent to Improperly Influence Behavior*

- R5340.7** A sustainability assurance practitioner shall not offer, or encourage others to offer, any inducement that is made, or which the practitioner considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- R5340.8** A sustainability assurance practitioner shall not accept, or encourage others to accept, any inducement that the practitioner concludes is made, or considers a reasonable and informed third party would be likely to conclude is made, with the intent to improperly influence the behavior of the recipient or of another individual.
- 5340.9 A1 An inducement is considered as improperly influencing an individual's behavior if it causes the individual to act in an unethical manner. Such improper influence can be directed either towards the recipient or towards another individual who has some relationship with the recipient. The fundamental principles are an appropriate frame of reference for a sustainability assurance practitioner in considering what constitutes unethical behavior on the part of the practitioner and, if necessary by analogy, other individuals.
- 5340.9 A2 A breach of the fundamental principle of integrity arises when a sustainability assurance practitioner offers or accepts, or encourages others to offer or accept, an inducement where the intent is to improperly influence the behavior of the recipient or of another individual.
- 5340.9 A3 The determination of whether there is actual or perceived intent to improperly influence behavior requires the exercise of professional judgment. Relevant factors to consider might include:
- The nature, frequency, value and cumulative effect of the inducement.
  - Timing of when the inducement is offered relative to any action or decision that it might influence.
  - Whether the inducement is a customary or cultural practice in the circumstances, for example, offering a gift on the occasion of a religious holiday or wedding.
  - Whether the inducement is an ancillary part of a professional service, for example, offering or accepting lunch in connection with a business meeting.
  - Whether the offer of the inducement is limited to an individual recipient or available to a broader group. The broader group might be internal or external to the firm, such as other suppliers to the sustainability assurance client.
  - The roles and positions of the individuals at the firm or the sustainability assurance client offering or being offered the inducement.
  - Whether the sustainability assurance practitioner knows, or has reason to believe, that accepting the inducement would breach the policies and procedures of the sustainability assurance client.
  - The degree of transparency with which the inducement is offered.
  - Whether the inducement was required or requested by the recipient.
  - The known previous behavior or reputation of the offeror.

### Consideration of Further Actions

5340.10 A1 If the sustainability assurance practitioner becomes aware of an inducement offered with actual or perceived intent to improperly influence behavior, threats to compliance with the fundamental principles might still be created even if the requirements in paragraphs R5340.7 and R5340.8 are met.

5340.10 A2 Examples of actions that might be safeguards to address such threats include:

- Informing senior management of the firm or those charged with governance of the sustainability assurance client regarding the offer.
- Amending or terminating the business relationship with the sustainability assurance client.

### *Inducements with No Intent to Improperly Influence Behavior*

5340.11 A1 The requirements and application material set out in the conceptual framework apply when a sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence the behavior of the recipient or of another individual.

5340.11 A2 If such an inducement is trivial and inconsequential, any threats created will be at an acceptable level.

5340.11 A3 Examples of circumstances where offering or accepting such an inducement might create threats even if the sustainability assurance practitioner has concluded there is no actual or perceived intent to improperly influence behavior include:

- Self-interest threats
  - A sustainability assurance practitioner is offered hospitality from the prospective acquirer of a sustainability assurance client while providing corporate finance services to the client.
- Familiarity threats
  - A sustainability assurance practitioner regularly takes an existing or prospective sustainability assurance client to sporting events.
- Intimidation threats
  - A sustainability assurance practitioner accepts hospitality from a sustainability assurance client, the nature of which could be perceived to be inappropriate were it to be publicly disclosed.

5340.11 A4 Relevant factors in evaluating the level of such threats created by offering or accepting such an inducement include the same factors set out in paragraph 5340.9 A3 for determining intent.

5340.11 A5 Examples of actions that might eliminate threats created by offering or accepting such an inducement include:

- Declining or not offering the inducement.
- Transferring responsibility for the provision of any professional services to the sustainability assurance client to another individual who the sustainability assurance practitioner has no reason to believe would be, or would be perceived to be, improperly influenced when providing the services.

5340.11 A6 Examples of actions that might be safeguards to address such threats created by offering or accepting such an inducement include:

- Being transparent with senior management of the firm or of the sustainability assurance client about offering or accepting an inducement.
- Registering the inducement in a log monitored by senior management of the firm or another individual responsible for the firm's ethics compliance or maintained by the sustainability assurance client.
- Having an appropriate reviewer, who is not otherwise involved in providing the professional service to the sustainability assurance client, review any work performed or decisions made by the sustainability assurance practitioner with respect to the client from which the practitioner accepted the inducement.
- Donating the inducement to charity after receipt and appropriately disclosing the donation, for example, to a member of senior management of the firm or the individual who offered the inducement.
- Reimbursing the cost of the inducement, such as hospitality, received.
- As soon as possible, returning the inducement, such as a gift, after it was initially accepted.

**Immediate or Close Family Members**

**R5340.12** A sustainability assurance practitioner shall remain alert to potential threats to the practitioner's compliance with the fundamental principles created by the offering of an inducement:

- (a) By an immediate or close family member of the practitioner to an existing or prospective sustainability assurance client.
- (b) To an immediate or close family member of the practitioner by an existing or prospective sustainability assurance client.

**R5340.13** Where the sustainability assurance practitioner becomes aware of an inducement being offered to or made by an immediate or close family member and concludes there is intent to improperly influence the behavior of the practitioner or of an existing or prospective sustainability assurance client, or considers a reasonable and informed third party would be likely to conclude such intent exists, the practitioner shall advise the immediate or close family member not to offer or accept the inducement.

5340.13 A1 The factors set out in paragraph 5340.9 A3 are relevant in determining whether there is actual or perceived intent to improperly influence the behavior of the sustainability assurance practitioner or of the existing or prospective sustainability assurance client. Another factor that is relevant is the nature or closeness of the relationship, between:

- (a) The practitioner and the immediate or close family member;
- (b) The immediate or close family member and the existing or prospective client; and
- (c) The practitioner and the existing or prospective client.

For example, the offer of employment, outside of the normal recruitment process, to the spouse of the practitioner by a client for whom the practitioner is performing a sustainability assurance engagement might indicate such intent.

5340.13 A2 The application material in paragraph 5340.10 A2 is also relevant in addressing threats that might be created when there is actual or perceived intent to improperly influence the behavior of the sustainability assurance practitioner, or of the existing or prospective sustainability assurance client even if the immediate or close family member has followed the advice given pursuant to paragraph R5340.13.

*Application of the Conceptual Framework*

5340.14 A1 Where the sustainability assurance practitioner becomes aware of an inducement offered in the circumstances addressed in paragraph R5340.12, threats to compliance with the fundamental principles might be created where:

- (a) The immediate or close family member offers or accepts the inducement contrary to the advice of the practitioner pursuant to paragraph R5340.13; or
- (b) The practitioner does not have reason to believe an actual or perceived intent to improperly influence the behavior of the practitioner or of the existing or prospective sustainability assurance client exists.

5340.14 A2 The application material in paragraphs 5340.11 A1 to 5340.11 A6 is relevant for the purposes of identifying, evaluating and addressing such threats. Factors that are relevant in evaluating the level of threats in these circumstances also include the nature or closeness of the relationships set out in paragraph 5340.13 A1.

**Other Considerations**

5340.15 A1 If a sustainability assurance practitioner encounters or is made aware of inducements that might result in non-compliance or suspected non-compliance with laws and regulations by a sustainability assurance client or individuals working for or under the direction of the sustainability assurance client, the requirements and application material in Section 5360 apply.

5340.15 A2 If a firm, network firm or a sustainability assurance team member is being offered gifts or hospitality from a sustainability assurance client, the requirement and application material set out in Section 5420 apply.

**[Paragraph 5340.15 A3 is intentionally left blank]**



## **SECTION 5350 CUSTODY OF CLIENT ASSETS**

### **Introduction**

- 5350.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5350.2 Holding client assets creates a self-interest or other threat to compliance with the principles of professional behavior and objectivity. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### **Requirements and Application Material**

#### **Before Taking Custody**

- R5350.3** A sustainability assurance practitioner shall not assume custody of money or other assets belonging to a sustainability assurance client unless permitted to do so by law and in accordance with any conditions under which such custody may be taken.
- R5350.4** As part of client and engagement acceptance procedures related to assuming custody of money or assets belonging to a sustainability assurance client, a sustainability assurance practitioner shall:
- (a)** Make inquiries about the source of the assets; and
  - (b)** Consider related legal and regulatory obligations.
- 5350.4 A1 Inquiries about the source of assets belonging to a sustainability assurance client might reveal, for example, that the assets were derived from illegal activities, such as money laundering. In such circumstances, a threat would be created and the provisions of Section 5360 would apply.

#### **After Taking Custody**

- R5350.5** A sustainability assurance practitioner entrusted with money or other assets belonging to a sustainability assurance client shall:
- (a)** Comply with the laws and regulations relevant to holding and accounting for the assets;
  - (b)** Keep the assets separately from personal or firm assets;
  - (c)** Use the assets only for the purpose for which they are intended; and
  - (d)** Be ready at all times to account for the assets and any income, dividends, or gains generated, to any individuals entitled to that accounting.

## **SECTION 5360**

### **RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS**

#### **Introduction**

- 5360.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 5360.3 A sustainability assurance practitioner might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a sustainability assurance client. This section guides the practitioner in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the client's financial statements or sustainability information; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts, impacts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

#### **Objectives of the Sustainability Assurance Practitioner in Relation to Non-compliance with Laws and Regulations**

- 5360.4 It is of public interest that sustainability assurance practitioners act ethically in order to maintain public trust and confidence in sustainability information that is subject to assurance. When responding to non-compliance or suspected non-compliance, the objectives of the practitioner are:
- (a) To comply with the principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the sustainability assurance client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

#### **Requirements and Application Material**

##### **General**

- 5360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A sustainability assurance client;
  - (b) Those charged with governance of a sustainability assurance client;

- (c) Management of a sustainability assurance client; or
- (d) Other individuals working for or under the direction of a sustainability assurance client.

5360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.
- Data protection.
- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Tax and pension liabilities and payments.

5360.5 A3 Non-compliance might result in fines, litigation or other consequences for the sustainability assurance client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R5360.6** In some jurisdictions, there are legal or regulatory provisions governing how sustainability assurance practitioners should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the sustainability assurance client.

5360.6 A1 A prohibition on alerting the client might arise, for example, pursuant to anti-money laundering legislation.

5360.7 A1 This section applies regardless of the nature of the sustainability assurance client, including whether or not it is a public interest entity.

5360.7 A2 A sustainability assurance practitioner who encounters or is made aware of matters that are clearly inconsequential is not required to comply with this section. Whether a matter is clearly inconsequential is to be judged with respect to its nature and its impact, financial or otherwise, on the sustainability assurance client, its stakeholders and the general public.

5360.7 A3 This section does not address:

- (a) Personal misconduct unrelated to the business activities of the sustainability assurance client; and
- (b) Non-compliance by parties other than those specified in paragraph 5360.5 A1. This includes, for example, when the identified or suspected non-compliance has been committed by an entity in the sustainability assurance client's value chain.

The sustainability assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.

### **Responsibilities of Management and Those Charged with Governance**

5360.8 A1 Management, with the oversight of those charged with governance, is responsible for ensuring that the sustainability assurance client's business activities are conducted in accordance with laws and regulations. Management and those charged with governance are also responsible for identifying and addressing any non-compliance by:

- (a) The sustainability assurance client;
- (b) An individual charged with governance of the sustainability assurance client;
- (c) A member of management of the sustainability assurance client; or
- (d) Other individuals working for or under the direction of the sustainability assurance client.

### **Responsibilities of Sustainability Assurance Practitioners**

**R5360.9** Where a sustainability assurance practitioner becomes aware of a matter to which this section applies, the steps that the practitioner takes to comply with this section shall be taken on a timely basis. In taking timely steps, the practitioner shall have regard to the nature of the matter and the potential harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

### **Sustainability Assurance Engagements Within the Scope of the *International Independence Standards* in this Part**

#### *Obtaining an Understanding of the Matter*

**R5360.10** If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is within the scope of the *International Independence Standards* in this Part becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might occur.

5360.10 A1 The sustainability assurance practitioner might become aware of the non-compliance or suspected non-compliance in the course of performing the sustainability assurance engagement or through information provided by other parties.

5360.10 A2 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgment. However, the practitioner is not expected to have a level of knowledge of laws and regulations greater than that which is required to undertake the sustainability assurance engagement. Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.10 A3 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

**R5360.11** If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management and, where appropriate, those charged with governance.

5360.11 A1 The purpose of the discussion is to clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

5360.11 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

5360.11 A3 The appropriate level of management is usually at least one level above the individual or individuals involved or potentially involved in the matter. In the context of a group, the appropriate level might be management at an entity that controls the sustainability assurance client.

5360.11 A4 The sustainability assurance practitioner might also consider discussing the matter with internal auditors, where applicable.

**R5360.12** If the sustainability assurance practitioner believes that management is involved in the non-compliance or suspected non-compliance, the practitioner shall discuss the matter with those charged with governance.

#### *Addressing the Matter*

**R5360.13** In discussing the non-compliance or suspected non-compliance with management and, where appropriate, those charged with governance, the sustainability assurance practitioner shall advise them to take appropriate and timely actions, if they have not already done so, to:

- (a) Rectify, remediate or mitigate the consequences of the non-compliance;
- (b) Deter the commission of the non-compliance where it has not yet occurred; or
- (c) Disclose the matter to an appropriate authority where required by law or regulation or where considered necessary in the public interest.

**R5360.14** The sustainability assurance practitioner shall consider whether management and those charged with governance understand their legal or regulatory responsibilities with respect to the non-compliance or suspected non-compliance.

5360.14 A1 If management and those charged with governance do not understand their legal or regulatory responsibilities with respect to the matter, the sustainability assurance practitioner might suggest appropriate sources of information or recommend that they obtain legal advice.

- R5360.15** The sustainability assurance practitioner shall comply with applicable:
- (a)** Laws and regulations, including legal or regulatory provisions governing the reporting of non-compliance or suspected non-compliance to an appropriate authority; and
  - (b)** Requirements under sustainability assurance standards, including those relating to:
    - Identifying and responding to non-compliance, including fraud.
    - Communicating with those charged with governance.
    - Considering the implications of the non-compliance or suspected non-compliance for the sustainability assurance report.

5360.15 A1 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

#### Communication with Respect to Groups

**R5360.16** Where the sustainability assurance practitioner becomes aware of non-compliance or suspected non-compliance in either of the following two situations in the context of a group, the practitioner shall communicate the matter to the group engagement leader unless prohibited from doing so by law or regulation:

- (a)** The practitioner performs sustainability assurance work related to a component for purposes of the group's sustainability assurance engagement; or
- (b)** The practitioner is engaged to perform a sustainability assurance engagement for the sustainability information of a legal entity or business unit that is part of a group for purposes other than the group's sustainability assurance engagement.

The communication to the group engagement leader shall be in addition to responding to the matter in accordance with the provisions of this section.

5360.16 A1 The purpose of the communication is to enable the group engagement leader to be informed about the matter and to determine, in the context of the group's sustainability assurance engagement, whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement in paragraph R5360.16 applies regardless of whether the group engagement leader's firm or network is the same as or different from the sustainability assurance practitioner's firm or network.

**R5360.17** Where the group engagement leader becomes aware of non-compliance or suspected non-compliance in the course of a group's sustainability assurance engagement, the group engagement leader shall consider whether the matter might be relevant to:

- (a)** One or more components subject to sustainability assurance work for purposes of the group's sustainability assurance engagement; or
- (b)** One or more legal entities or business units that are part of the group and whose sustainability information is subject to assurance for purposes other than the group's sustainability assurance engagement.

This consideration shall be in addition to responding to the matter in the context of the group's sustainability assurance engagement in accordance with the provisions of this section.

**R5360.18** If the non-compliance or suspected non-compliance might be relevant to one or more of the components specified in paragraph R5360.17(a) and legal entities or business units specified in

paragraph R5360.17(b), the group engagement leader shall take steps to have the matter communicated to those performing sustainability assurance work at the components, legal entities or business units, unless prohibited from doing so by law or regulation. If necessary, the group engagement leader shall arrange for appropriate inquiries to be made (either of management or from publicly available information) as to whether the relevant legal entities or business units specified in paragraph R5360.17(b) are subject to sustainability assurance and, if so, to ascertain to the extent practicable the identity of the practitioners.

5360.18 A1 The purpose of the communication is to enable those responsible for sustainability assurance work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement leader's firm or network is the same as or different from the firms or networks of those performing sustainability assurance work at the components, legal entities or business units.

#### Communicating the Matter to the Sustainability Assurance Client's External Auditor

**R5360.18a** The sustainability assurance practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the sustainability assurance client's external auditor, if any.

#### Relevant Factors to Consider

5360.18a A1 Factors relevant to considering the communication in accordance with paragraph R5360.18a include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the sustainability assurance client's external auditor about the matter.
- Whether and, if so, how the firm's or network firm's protocols or procedures address communication of non-compliance or suspected non-compliance within the firm or network firm.

#### Purpose of Communication

5360.18a A2 In the circumstances addressed in paragraph R5360.18a, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code.

#### *Determining Whether Further Action Is Needed*

**R5360.19** The sustainability assurance practitioner shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

5360.19 A1 Relevant factors to consider in assessing the appropriateness of the response of management and, where applicable, those charged with governance include whether:

- The response is timely.
- The non-compliance or suspected non-compliance has been adequately investigated.

- Action has been, or is being, taken to rectify, remediate or mitigate the consequences of any non-compliance.
- Action has been, or is being, taken to deter the commission of any non-compliance where it has not yet occurred.
- Appropriate steps have been, or are being, taken to reduce the risk of re-occurrence, for example, additional controls or training.
- The non-compliance or suspected non-compliance has been disclosed to an appropriate authority where appropriate and, if so, whether the disclosure appears adequate.

**R5360.20** In light of the response of management and, where applicable, those charged with governance, the sustainability assurance practitioner shall determine if further action is needed in the public interest.

5360.20 A1 The determination of whether further action is needed, and the nature and extent of it, will depend on various factors, including:

- The legal and regulatory framework.
- The urgency of the situation.
- The pervasiveness of the matter throughout the sustainability assurance client.
- Whether the sustainability assurance practitioner continues to have confidence in the integrity of management and, where applicable, those charged with governance.
- Whether the non-compliance or suspected non-compliance is likely to recur.
- Whether there is credible evidence of actual or potential substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.20 A2 Examples of circumstances that might cause the sustainability assurance practitioner no longer to have confidence in the integrity of management and, where applicable, those charged with governance include situations where:

- The practitioner suspects or has evidence of their involvement or intended involvement in any non-compliance.
- The practitioner is aware that they have knowledge of such non-compliance and, contrary to legal or regulatory requirements, have not reported, or authorized the reporting of, the matter to an appropriate authority within a reasonable period.

**R5360.21** The sustainability assurance practitioner shall exercise professional judgment in determining the need for, and nature and extent of, further action. In making this determination, the practitioner shall take into account whether a reasonable and informed third party would be likely to conclude that the practitioner has acted appropriately in the public interest.

5360.21 A1 Further action that the sustainability assurance practitioner might take includes:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.21 A2 Withdrawing from the engagement and the professional relationship is not a substitute for taking other actions that might be needed to achieve the sustainability assurance practitioner's objectives under



this section. In some jurisdictions, however, there might be limitations as to the further actions available to the practitioner. In such circumstances, withdrawal might be the only available course of action.

**R5360.22** Where the sustainability assurance practitioner has withdrawn from the professional relationship pursuant to paragraphs R5360.20 and 5360.21 A1, the practitioner shall, on request by the proposed practitioner pursuant to paragraph R5320.8, provide all relevant facts and other information concerning the identified or suspected non-compliance to the proposed practitioner. The predecessor practitioner shall do so, even in the circumstances addressed in paragraph R5320.8(b) where the sustainability assurance client fails or refuses to grant the predecessor practitioner permission to discuss the client's affairs with the proposed practitioner, unless prohibited by law or regulation.

5360.22 A1 The facts and other information to be provided are those that, in the predecessor practitioner's opinion, the proposed practitioner needs to be aware of before deciding whether to accept the appointment. Section 5320 addresses communications from proposed practitioners.

**R5360.23** If the proposed practitioner is unable to communicate with the predecessor practitioner, the proposed practitioner shall take reasonable steps to obtain information about the circumstances of the change of appointment by other means.

5360.23 A1 Other means to obtain information about the circumstances of the change of appointment include inquiries of third parties or background investigations of management or those charged with governance.

5360.24 A1 As assessment of the matter might involve complex analysis and judgments, the practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the practitioner's options and the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

#### Determining Whether to Disclose the Matter to an Appropriate Authority

5360.25 A1 Disclosure of the matter to an appropriate authority would be precluded if doing so would be contrary to law or regulation. Otherwise, the purpose of making disclosure is to enable an appropriate authority to cause the matter to be investigated and action to be taken in the public interest.

5360.25 A2 The determination of whether to make such a disclosure depends in particular on the nature and extent of the actual or potential harm that is or might be caused by the matter to investors, creditors, employees or the general public. For example, the sustainability assurance practitioner might determine that disclosure of the matter to an appropriate authority is an appropriate course of action if:

- The sustainability assurance client is engaged in bribery (for example, of local or foreign government officials for purposes of securing large contracts).
- The sustainability assurance client is regulated and the matter is of such significance as to threaten its license to operate.
- The sustainability assurance client is listed on a securities exchange and the matter might result in adverse consequences to the fair and orderly market in the client's securities or pose a systemic risk to the financial markets.

- It is likely that the sustainability assurance client would sell products that are harmful to public health or safety.
- The sustainability assurance client is promoting a scheme to its clients to assist them in evading taxes.

5360.25 A3 The determination of whether to make such a disclosure will also depend on external factors such as:

- Whether there is an appropriate authority that is able to receive the information, and cause the matter to be investigated and action to be taken. The appropriate authority will depend on the nature of the matter. For example, the appropriate authority would be a securities regulator in the case of fraudulent financial reporting or an environmental protection agency in the case of a breach of environmental laws and regulations.
- Whether there exists robust and credible protection from civil, criminal or professional liability or retaliation afforded by legislation or regulation, such as under whistle-blowing legislation or regulation.
- Whether there are actual or potential threats to the physical safety of the sustainability assurance practitioner or other individuals.

**R5360.26** If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

#### *Imminent Breach*

**R5360.27** In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

#### *Documentation*

**R5360.28** In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner shall document:

- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the judgments made and the decisions that were taken, having regard to the reasonable and informed third party test.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.20.

5360.28 A1 This documentation is in addition to complying with the documentation requirements in relation to non-compliance or suspected non-compliance under applicable sustainability assurance standards.

**Sustainability Assurance Engagements Not Within the Scope of the *International Independence Standards* in this Part and Other Professional Services**

*Obtaining an Understanding of the Matter and Addressing It with Management and Those Charged with Governance*

**R5360.29** If a sustainability assurance practitioner engaged to perform a sustainability assurance engagement that is not within the scope of the *International Independence Standards* in this Part or another professional service for a sustainability assurance client becomes aware of information concerning non-compliance or suspected non-compliance, the practitioner shall seek to obtain an understanding of the matter. This understanding shall include the nature of the non-compliance or suspected non-compliance and the circumstances in which it has occurred or might be about to occur.

5360.29 A1 The sustainability assurance practitioner is expected to apply knowledge and expertise, and exercise professional judgment. However, the practitioner is not expected to have a level of understanding of laws and regulations beyond that which is required for the professional service for which the practitioner was engaged. Whether an act constitutes actual non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

5360.29 A2 Depending on the nature and significance of the matter, the sustainability assurance practitioner might consult on a confidential basis with others within the firm, a network firm or a professional body, or with legal counsel.

**R5360.30** If the sustainability assurance practitioner identifies or suspects that non-compliance has occurred or might occur, the practitioner shall discuss the matter with the appropriate level of management. If the practitioner has access to those charged with governance, the practitioner shall also discuss the matter with them where appropriate.

5360.30 A1 The purpose of the discussion is to clarify the sustainability assurance practitioner's understanding of the facts and circumstances relevant to the matter and its potential consequences. The discussion also might prompt management or those charged with governance to investigate the matter.

5360.30 A2 The appropriate level of management with whom to discuss the matter is a question of professional judgment. Relevant factors to consider include:

- The nature and circumstances of the matter.
- The individuals actually or potentially involved.
- The likelihood of collusion.
- The potential consequences of the matter.
- Whether that level of management is able to investigate the matter and take appropriate action.

*Communicating the Matter to the Sustainability Assurance Client's External Auditor*

**R5360.31** If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the *International Independence Standards* in this Part or another professional service for a sustainability assurance client that is:

- (a) An audit client of the firm; or
- (b) A component of an audit client of the firm,

the practitioner shall communicate the non-compliance or suspected non-compliance within the firm, unless prohibited from doing so by law or regulation. The communication shall be made in accordance

with the firm's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

**R5360.32** If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the *International Independence Standards* in this Part or another professional service for a sustainability assurance client that is:

- (a) An audit client of a network firm; or
- (b) A component of an audit client of a network firm,

the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the network firm. Where the communication is made, it shall be made in accordance with the network's protocols or procedures. In the absence of such protocols and procedures, it shall be made directly to the audit engagement partner.

**R5360.33** If the sustainability assurance practitioner is performing a sustainability assurance engagement that is not within the scope of the *International Independence Standards* in this Part or another professional service for a sustainability assurance client that is not:

- (a) An audit client of the firm or a network firm; or
- (b) A component of an audit client of the firm or a network firm,

the practitioner shall consider whether to communicate the non-compliance or suspected non-compliance to the firm that is the sustainability assurance client's external auditor, if any.

#### Relevant Factors to Consider

5360.34 A1 Factors relevant to considering the communication in accordance with paragraphs R5360.31 to R5360.33 include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the entity's external auditor about the matter.

#### Purpose of Communication

5360.35 A1 In the circumstances addressed in paragraphs R5360.31 to R5360.33, the purpose of the communication is to enable the audit engagement partner to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of the Code.

#### *Considering Whether Further Action Is Needed*

**R5360.36** The sustainability assurance practitioner shall also consider whether further action is needed in the public interest.

5360.36 A1 Whether further action is needed, and the nature and extent of it, will depend on factors such as:

- The legal and regulatory framework.
- The appropriateness and timeliness of the response of management and, where applicable, those charged with governance.
- The urgency of the situation.
- The involvement of management or those charged with governance in the matter.
- The likelihood of substantial harm to the interests of the sustainability assurance client, investors, creditors, employees or the general public.

5360.36 A2 Further action by the sustainability assurance practitioner might include:

- Disclosing the matter to an appropriate authority even when there is no legal or regulatory requirement to do so.
- Withdrawing from the engagement and the professional relationship where permitted by law or regulation.

5360.36 A3 In considering whether to disclose to an appropriate authority, relevant factors to take into account include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the sustainability assurance client to enable it to take appropriate action.

**R5360.37** If the sustainability assurance practitioner determines that disclosure of the non-compliance or suspected non-compliance to an appropriate authority is an appropriate course of action in the circumstances, that disclosure is permitted pursuant to paragraph R5114.3. When making such disclosure, the practitioner shall act in good faith and exercise caution when making statements and assertions. The practitioner shall also consider whether it is appropriate to inform the sustainability assurance client of the practitioner's intentions before disclosing the matter.

#### *Imminent Breach*

**R5360.38** In exceptional circumstances, the sustainability assurance practitioner might become aware of actual or intended conduct that the practitioner has reason to believe would constitute an imminent breach of a law or regulation that would cause substantial harm to investors, creditors, employees or the general public. Having first considered whether it would be appropriate to discuss the matter with management or those charged with governance of the sustainability assurance client, the practitioner shall exercise professional judgment and determine whether to disclose the matter immediately to an appropriate authority in order to prevent or mitigate the consequences of such imminent breach of law or regulation. If disclosure is made, that disclosure is permitted pursuant to paragraph R5114.3.

*Seeking Advice*

5360.39 A1 The sustainability assurance practitioner might consider:

- Consulting internally.
- Obtaining legal advice to understand the professional or legal implications of taking any particular course of action.
- Consulting on a confidential basis with a regulatory or professional body.

*Documentation*

5360.40 A1 In relation to non-compliance or suspected non-compliance that falls within the scope of this section, the sustainability assurance practitioner is encouraged to document:

- The matter.
- The results of discussion with management and, where applicable, those charged with governance and other parties.
- How management and, where applicable, those charged with governance have responded to the matter.
- The courses of action the practitioner considered, the judgments made and the decisions that were taken.
- How the practitioner is satisfied that the practitioner has fulfilled the responsibility set out in paragraph R5360.36.

## **SECTION 5380**

### **TAX PLANNING SERVICES**

#### **Introduction**

- 5380.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5380.2 Providing tax planning services might create self-interest, self-review, advocacy, or intimidation threats to compliance with the fundamental principles.
- 5380.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to the provision of tax planning services to a sustainability assurance client. This section also requires a sustainability assurance practitioner to comply with relevant tax laws and regulations when providing such services.

#### **Requirements and Application Material**

##### **General**

##### *Public Interest Role of Sustainability Assurance Practitioners in Relation to Tax Planning Services*

- 5380.4 A1 Sustainability assurance practitioners providing tax planning services to sustainability assurance clients play an important role by contributing their expertise and experience to assist those clients in meeting their tax planning goals while complying with tax laws and regulations. In doing so, practitioners help to facilitate a more efficient and effective operation of a jurisdiction's tax system, which is in the public interest.
- 5380.4 A2 Clients are entitled to organize their affairs for tax planning purposes. While there are a variety of ways to achieve such purposes, clients have a responsibility to pay taxes as determined by the relevant tax laws and regulations. In this regard, sustainability assurance practitioners' role is to use their expertise and experience to assist their sustainability assurance clients in achieving their tax planning goals and meeting their tax obligations. However, when practitioners provide such assistance, it might involve certain tax minimization arrangements that, although not prohibited by tax laws and regulations, might create threats to compliance with the fundamental principles.
- 5380.4 A3 It is ultimately for a tribunal, court or other appropriate adjudicative body to determine whether a tax planning arrangement complies with the relevant tax laws and regulations.

##### *Description of Tax Planning Services*

- 5380.5 A1 Tax planning services are advisory services designed to assist a sustainability assurance client, in planning or structuring the client's affairs in a tax-efficient manner.
- 5380.5 A2 Tax planning services cover a broad range of topics or areas. Examples of such services include:
- Advising an entity to structure its tax affairs to achieve investment goals.
  - Advising an entity on structuring its ownership of, and income from, separate businesses to minimize its overall taxes.
  - Advising an entity on structuring its international operations to minimize its overall taxes.
  - Advising on the structuring of transfer pricing arrangements, taking into account tax-related transfer pricing guidelines.

- Advising on the utilization of losses in a tax-efficient manner.
- Advising an entity on the structuring of its capital distribution strategy in a tax-efficient manner.
- Advising an entity on structuring its compensation strategy for senior executives to optimize the tax benefits.

5380.5 A3 Tax planning services do not include services that are generally referred to as tax compliance or tax preparation, which are services to assist the sustainability assurance client in fulfilling the client's filing, reporting, payment and other obligations under tax laws and regulations. However, if a tax service comprises both tax planning and tax compliance, the portion that relates to tax planning is covered by this section.

5380.5 A4 This section applies regardless of the nature of the sustainability assurance client, including whether it is a public interest entity.

### **Related Services**

5380.6 A1 There might be circumstances where a sustainability assurance practitioner is engaged to provide a related service to a sustainability assurance client that is based on or linked to a tax planning arrangement developed by the client or a third-party provider. In such circumstances, the provisions of this section apply to the underlying tax planning arrangement.

5380.6 A2 Examples of such related services include:

- Assisting the sustainability assurance client in resolving a dispute with the tax authority on the tax planning arrangement.
- Representing the sustainability assurance client in administrative or court proceedings regarding the tax planning arrangement.
- Implementing the tax planning arrangement for the sustainability assurance client.
- Advising the sustainability assurance client on an acquisition where the valuation depends on the tax planning arrangement established by the target.

### **Compliance with Laws and Regulations**

5380.7 A1 This section does not address tax evasion, which is illegal.

#### *Anti-avoidance Laws and Regulations*

**R5380.8** Where there are laws and regulations, including those that might be referred to as anti-avoidance rules, that limit or prohibit certain tax planning arrangements, a sustainability assurance practitioner shall obtain an understanding of those laws and regulations and advise the sustainability assurance client to comply with them when providing tax planning services.

#### *Non-compliance with Tax Laws and Regulations*

5380.8 A1 If, in the course of providing tax planning services, a sustainability assurance practitioner becomes aware of tax evasion or suspected tax evasion, or other non-compliance or suspected non-compliance with tax laws and regulations by a sustainability assurance client, management, those charged with governance or other individuals working for or under the direction of the client, the requirements and application material set out in Section 5360 apply.



## **Responsibilities of Management and Those Charged with Governance**

5380.9 A1 In relation to tax planning, management, with the oversight of those charged with governance, has a number of responsibilities, including:

- Ensuring that the sustainability assurance client's tax affairs are conducted in accordance with the relevant tax laws and regulations.
- Maintaining all the books and records and implementing the systems of internal control necessary to enable the sustainability assurance client to fulfill its tax compliance obligations.
- Making available all the facts and other relevant information needed to enable the sustainability assurance practitioner to perform the tax planning service.
- Engaging experts to advise on relevant aspects of the tax planning arrangement.
- Deciding whether to accept and implement the sustainability assurance practitioner's recommendation or advice on a tax planning arrangement.
- Authorizing the submission of the sustainability assurance client's tax returns and ensuring that any matters raised by the relevant tax authorities are addressed in a timely manner.
- Making such disclosures to the relevant tax authorities as might be required by tax laws and regulations or as might be necessary to support a tax position, including details of any tax planning arrangements.
- Making appropriate disclosure of tax strategy, policies or other tax-related matters in the financial statements, sustainability disclosures or other relevant public documents in accordance with applicable reporting requirements.
- Ensuring that the sustainability assurance client's tax planning arrangements are consistent with any publicly disclosed tax strategy or policies.

## **Responsibilities of All Sustainability Assurance Practitioners**

**R5380.10** As part of providing a tax planning service, a sustainability assurance practitioner shall obtain an understanding of the nature of the engagement, including:

- (a) Knowledge and understanding of the sustainability assurance client, its owners, management and those charged with governance, and its business activities;
- (b) The purpose, facts and circumstances of the tax planning arrangement; and
- (c) The relevant tax laws and regulations.

5380.10 A1 The requirements and application material in Section 5320 apply with respect to client and engagement acceptance.

### **[Paragraph 5380.10 A2 is intentionally left blank]**

5380.11 A1 A sustainability assurance practitioner is expected to apply professional competence and due care in accordance with Subsection 5113 when providing a tax planning service. The practitioner is also expected to have an inquiring mind and exercise professional judgment in accordance with Section 5120 when considering the specific facts and circumstances relating to the tax planning service.

**Basis for Recommending or otherwise Advising on a Tax Planning Arrangement**

- R5380.12** A sustainability assurance practitioner shall recommend or otherwise advise on a tax planning arrangement to a sustainability assurance client only if the practitioner has determined that there is a credible basis in laws and regulations for the arrangement.
- 5380.12 A1 The determination of whether there is a credible basis involves the exercise of professional judgment by the sustainability assurance practitioner. This determination will vary from jurisdiction to jurisdiction based on the relevant laws and regulations at the time.
- 5380.12 A2 If the sustainability assurance practitioner determines that the tax planning arrangement does not have a credible basis in laws and regulations, paragraph R5380.12 does not preclude the practitioner from explaining to the sustainability assurance client the practitioner's rationale for the determination or advising on an alternative arrangement that has a credible basis.
- 5380.12 A3 Paragraph R5380.12 also does not preclude the sustainability assurance practitioner from being engaged by the sustainability assurance client, or otherwise assisting the client, to remediate or rectify a tax planning arrangement which lacks a credible basis. Such type of service is a related service as described in paragraphs 5380.6 A1 and A2. This includes, for example:
- Assisting the client to restructure a tax planning arrangement to achieve a credible basis as part of a tax dispute resolution service.
  - Agreeing with the client appropriate changes to the tax planning arrangement to achieve a credible basis as part of representing the client in administrative or court proceedings.
- 5380.12 A4 Examples of actions that a sustainability assurance practitioner might take to determine that there is a credible basis in relation to a particular tax planning arrangement include:
- Reviewing the relevant facts and circumstances, including the economic purpose and substance of the arrangement.
  - Assessing the reasonableness of any assumptions.
  - Reviewing the relevant tax legislation.
  - Reviewing legislative proceedings that discuss the intent of the relevant tax legislation.
  - Reviewing relevant literature such as court decisions, professional or industry journals, and tax authority rulings or guidance.
  - Considering whether the basis used for the proposed arrangement is an established practice that has not been challenged by the relevant tax authorities.
  - Considering how likely the proposed arrangement would be accepted by the relevant tax authorities if all the relevant facts and circumstances were disclosed.
  - Consulting with legal counsel or other experts within or outside the sustainability assurance practitioner's firm regarding what a reasonable interpretation of the relevant laws and regulations might be.
  - Consulting with the relevant tax authorities, where applicable.
- R5380.13** If, during the course of the engagement, the sustainability assurance practitioner becomes aware of circumstances that might impact the previous determination of the credible basis, the practitioner shall re-assess the validity of that basis.

*Consideration of the Overall Tax Planning Recommendation or Advice*

**R5380.14** In addition to determining that there is a credible basis for the tax planning arrangement, the sustainability assurance practitioner shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.

5380.14 A1 The reputational and commercial consequences might relate to business implications to the sustainability assurance client or implications to the reputation of the client or a relevant profession or a group of practitioners to which the sustainability assurance practitioner might belong from a prolonged dispute with the relevant tax or other authorities. The implications to the client might involve adverse publicity, costs, fines or penalties, loss of management time over a significant period, and potential adverse consequences for the client's business.

5380.14 A2 An awareness of the wider economic consequences might take into account the sustainability assurance practitioner's general understanding of the current economic environment and the impact of the tax planning arrangement on the tax base of the jurisdiction, or the relative impacts of the arrangement on the tax bases of multiple jurisdictions, where the sustainability assurance client operates.

**R5380.15** If, having considered the matters set out in paragraph R5380.14, the sustainability assurance practitioner decides not to recommend or otherwise advise on a tax planning arrangement that the sustainability assurance client would like to pursue, the practitioner shall inform the client of this and explain the basis for the practitioner's conclusion.

*Tax Planning Arrangements Involving Multiple Jurisdictions*

5380.16 A1 There might be circumstances where a sustainability assurance practitioner becomes aware that a sustainability assurance client is obtaining a tax benefit from accounting for the same transaction in more than one jurisdiction, especially if there is no tax treaty between the jurisdictions. In such circumstances, while the client might be in compliance with the tax laws and regulations of each jurisdiction, the practitioner might advise the client to disclose to the relevant tax authorities the particular facts and circumstances and the tax benefits derived from the transaction in the different jurisdictions.

5380.16 A2 Relevant factors the sustainability assurance practitioner might consider in determining whether to advise the sustainability assurance client to make such disclosure include:

- The significance of the tax benefits in the relevant jurisdictions.
- Stakeholders' perceptions of the client if the facts and circumstances were known to the stakeholders.
- Whether there are globally or nationally accepted principles or practices regarding disclosure of similar situations to the tax authorities in the relevant jurisdictions.

**Circumstances of Uncertainty**

5380.17 A1 In determining whether there is a credible basis for the tax planning arrangement, a sustainability assurance practitioner might encounter circumstances giving rise to uncertainty as to whether a proposed tax planning arrangement will be in compliance with the relevant tax laws and regulations. Such uncertainty makes it more challenging for the practitioner to determine that there is a credible basis in laws and regulations for the tax planning arrangement and might, therefore, create threats to compliance with the fundamental principles.

5380.17 A2 Circumstances that might give rise to uncertainty include:

- Difficulty in establishing an adequate factual basis.
- Difficulty in establishing an adequate basis of assumptions.
- Lack of clarity in the tax laws and regulations and their interpretation, including:
  - Gaps in the tax laws and regulations.
  - Challenges to previous court rulings.
  - Conflicting tax laws and regulations in different jurisdictions in circumstances involving cross-border transactions.
  - Innovative business models not addressed by the current tax laws and regulations.
  - Recent court or tax authority rulings or positions that cast doubt on similar tax planning arrangements.
  - Complexity in interpreting or applying the tax laws and regulations from a technical or legal point of view.
  - Lack of a legal precedent, ruling or position.
- Lack of clarity regarding the economic purpose and substance of the tax planning arrangement.
- Lack of clarity about the ultimate beneficiaries of the tax planning arrangement.

**R5380.18** Where there is uncertainty as to whether a tax planning arrangement is or will be in compliance with the relevant tax laws and regulations, a sustainability assurance practitioner shall discuss the uncertainty with the sustainability assurance client.

5380.18 A1 The discussion serves a number of purposes, including:

- Explaining the sustainability assurance practitioner's assessment about how likely the relevant tax authorities are to have a view that supports the tax planning arrangement where there is a lack of clarity in the interpretation of the relevant tax laws and regulations.
- Considering any assumptions made when establishing the basis on which the tax planning advice is provided.
- Obtaining any additional information from the sustainability assurance client that might reduce the uncertainty.
- Discussing any reputational, commercial or wider economic consequences in pursuing the tax planning arrangement.
- Discussing potential courses of action to mitigate the possibility of adverse consequences for the sustainability assurance client, including consideration of disclosure to the relevant tax authorities.

### **Potential Threats Arising from Providing a Tax Planning Service**

5380.19 A1 Providing a tax planning service to a sustainability assurance client might create a self-interest, self-review, advocacy or intimidation threat. For example:

- A self-review threat might be created when a sustainability assurance practitioner has recently provided a valuation service to a client for tax purposes, the output of which is then relied upon or is a key input to a tax planning service for the client.

- A self-interest threat might be created when a sustainability assurance practitioner has a direct financial interest in a client and the accountant is involved in designing a tax planning arrangement that has an impact on the client's financial situation.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner actively promotes a particular tax position a client should adopt.
- A self-interest threat might be created when a sustainability assurance practitioner is in possession of confidential information obtained from the practitioner's involvement in formulating or drafting tax policy, laws or regulations for a government agency and the confidential information would be valuable to the practitioner in advising other clients on their tax planning arrangements.
- A self-interest threat might be created when a sustainability assurance practitioner accepts a fee that might be perceived to be excessive for an engagement to develop a tax planning arrangement for which the interpretation of the relevant tax laws and regulations is uncertain or unclear.
- Self-interest and advocacy threats might be created when a sustainability assurance practitioner advocates a client's position in a tax planning arrangement which the practitioner previously advised on before a tax authority when there are indications that the arrangement might not have a credible basis in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner provides services to a client who exerts significant influence over the design of a particular tax arrangement, in a way that might influence the practitioner's determination that there is a credible basis for the arrangement in laws and regulations.
- Self-interest and intimidation threats might be created when a sustainability assurance practitioner is threatened with dismissal from the engagement or the practitioner's firm concerning the position a client is insisting on pursuing regarding a tax planning arrangement.

5380.19 A2 Factors that are relevant in evaluating the level of such threats include:

- The degree of transparency of the sustainability assurance client, including, where applicable, the identity of the ultimate beneficiaries.
- Whether the tax planning arrangement has a clear economic purpose and substance based on the underlying business transaction or circumstances.
- The nature and complexity of the underlying business transaction or circumstances.
- The complexity or clarity of the relevant tax laws and regulations.
- Whether the sustainability assurance practitioner knows, or has reason to believe, that the tax planning arrangement would be contrary to the intent of the relevant tax legislation.
- The number of jurisdictions involved and the nature of their tax regimes.
- The extent of the sustainability assurance practitioner's expertise and experience in the relevant tax areas.
- The significance of the potential tax savings.
- The nature and amount of the fee for the tax planning service.

- The extent to which the sustainability assurance practitioner is aware that the tax planning arrangement reflects an established practice that has not been challenged by the relevant tax authorities.
- Whether there is pressure being exerted by the sustainability assurance client or another party on the sustainability assurance practitioner.
- The degree of urgency in implementing the tax planning arrangement.
- Whether it is a tax planning arrangement used for multiple sustainability assurance clients with little modification for the client's specific circumstances.
- The known previous behavior or reputation of the sustainability assurance client, including its organizational culture.

5380.19 A3 Examples of actions that might eliminate such threats include:

- Referring the sustainability assurance client to an expert outside the sustainability assurance practitioner's firm who has the necessary expertise and experience to advise the client on the tax planning arrangement.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it is consistent with an existing interpretation or ruling issued by the relevant tax authorities.
- Obtaining an advance ruling from the relevant tax or other authorities, where possible.
- Advising the sustainability assurance client not to pursue the tax planning arrangement.

5380.19 A4 Examples of actions that might be safeguards to address such threats include:

- Establishing the identity of the ultimate beneficiaries.
- Advising the sustainability assurance client to structure the tax planning arrangement so that it better aligns with the underlying economic purpose and substance.
- Advising the sustainability assurance client to structure the tax planning arrangement based on an established practice that is currently not subject to challenge by the relevant tax authorities or is known to have been accepted by the relevant tax authorities.
- Consulting with a legal counsel or other expert within or outside the sustainability assurance practitioner's firm in the relevant tax areas.
- Obtaining an opinion from an appropriately qualified professional (such as legal counsel or a professional accountant) regarding the interpretation of the relevant tax laws and regulations as applied to the particular circumstances.
- Having an appropriate reviewer, who is not otherwise involved in providing the tax planning service, review any work performed or conclusions reached by the sustainability assurance practitioner with respect to the tax planning arrangement.
- Having the sustainability assurance client provide full transparency about the tax planning arrangement to the relevant tax authorities, including the goals, business and legal aspects, and ultimate beneficiaries of the tax planning arrangement.

5380.19 A5 Examples of steps a sustainability assurance practitioner might take to establish the identity of the ultimate beneficiaries include:

- Making inquiries of management and others within the sustainability assurance client.

- Making inquiries of others within or outside the firm who have dealt with the sustainability assurance client, having regard to the principle of confidentiality.
- Reviewing the sustainability assurance client's tax records, financial statements and other relevant corporate records.
- Making inquiries of registrars where the sustainability assurance client or entities within its legal structure are incorporated concerning the relevant shareholders.
- Researching relevant public records.

### **Communication of Basis of the Tax Planning Recommendation or Advice**

**R5380.20** A sustainability assurance practitioner shall explain the basis on which the practitioner recommended or otherwise advised on a tax planning arrangement to the sustainability assurance client.

### **Disagreement with the Sustainability Assurance Client**

**R5380.21** If the sustainability assurance practitioner disagrees that a tax planning arrangement that a sustainability assurance client would like to pursue has a credible basis, the practitioner shall:

- (a) Inform the client of the basis of the practitioner's assessment;
- (b) Communicate to the client the potential consequences of pursuing the arrangement; and
- (c) Advise the client not to pursue the arrangement.

**R5380.22** If the sustainability assurance client decides to pursue the tax planning arrangement despite the sustainability assurance practitioner's advice to the contrary, the practitioner shall advise the client to:

- (a) Communicate internally to the appropriate level of management the details of the arrangement and the difference of views;
- (b) Consider making full disclosure of the arrangement to the relevant tax authorities; and
- (c) Consider communicating the details of the arrangement and the difference of views to the external auditor, if any.

5380.22 A1 As part of communicating the matters set out in paragraphs R5380.21 and R5380.22, a sustainability assurance practitioner might consider it appropriate to raise the relevant matters with those charged with governance of the sustainability assurance client.

**R5380.23** In light of the sustainability assurance client's response to the sustainability assurance practitioner's advice, the practitioner shall consider whether there is a need to withdraw from the engagement and the professional relationship.

### **Tax Planning Products or Arrangements Developed by a Third Party**

**R5380.24** If a sustainability assurance client engages a sustainability assurance practitioner to advise on a tax planning product or arrangement developed by a third party, the practitioner shall:

- (a) Inform the client of any professional or business relationship the sustainability assurance practitioner has with the third-party provider; and
- (b) Apply the provisions in this section with respect to the tax planning product or arrangement.

**R5380.25** If a sustainability assurance practitioner recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the practitioner shall inform the client of any professional or business relationship the practitioner has with the third-party provider.

5380.25 A1 Where the sustainability assurance practitioner only recommends or refers a sustainability assurance client to a third-party provider of tax planning services, the provisions of this section do not apply.

5380.25 A2 If a sustainability assurance practitioner receives a referral fee or commission from the third-party provider, the provisions in Section 5330 apply.

### **Documentation**

5380.26 A1 When providing a tax planning service, a sustainability assurance practitioner is encouraged to document on a timely basis:

- The purpose, circumstances and substance of the tax planning arrangement.
- The identity of the ultimate beneficiaries.
- The nature of any uncertainties.
- The practitioner's analysis, the courses of action considered, the judgments made, and the conclusions reached in advising the sustainability assurance client on the tax planning arrangement.
- The results of discussions with the sustainability assurance client and other parties.
- The sustainability assurance client's response to the practitioner's advice.
- Any disagreement with the sustainability assurance client.

5380.26 A2 Preparing such documentation assists the sustainability assurance practitioner to:

- Consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.
- Develop the practitioner's analysis of the facts, circumstances, relevant tax laws and regulations and any assumptions made or changed.
- Record the basis of the professional judgments at the time they were made or changed.
- Support the position if the tax planning arrangement is challenged by the relevant tax authorities.
- Demonstrate that the practitioner has complied with the provisions in this section.



## **SECTION 5390**

### **USING THE WORK OF AN EXTERNAL EXPERT**

#### **Introduction**

- 5390.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5390.2 Using the work of an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 5390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert.

#### **Requirements and Application Material**

##### **General**

- 5390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a sustainability assurance practitioner performs a professional service for which the practitioner has insufficient expertise.
- 5390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 5390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a sustainability assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
  - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
  - The calculation of greenhouse gas emissions.
  - The measurement of pollutants emitted to air, water and soil.
  - The valuation of products and materials designed along principles for a sustainable economy.
  - The estimation of oil and gas reserves.
  - The interpretation of contracts, laws and regulations, including tax laws and regulations, tax treaties and bilateral agreements.
  - Assessment and evaluation of IT systems, including those related to cybersecurity.
  - The accounting for specific matters such as financial instruments or carbon credits.

5390.4 A4 This section does not apply to:

- (a) The use of the work of an expert employed or engaged by the sustainability assurance client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management; and
- (b) The use of information provided by individuals or organizations that are external information sources for general use. They include, for example, those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

### **Agreeing the Terms of Engagement with an External Expert**

#### *All Professional Services*

**R5390.5** If the sustainability assurance practitioner has identified an external expert to use for a professional service, the practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

- (a) The nature, scope and objectives of the work to be performed by the external expert; and
- (b) In the context of sustainability or other assurance engagements, the provision of information needed from the external expert for purposes of assisting the practitioner's evaluation of the external expert's competence, capabilities and objectivity.

5390.5 A1 In agreeing the terms of engagement, matters that the sustainability assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's general approach to the work.
- Expectations regarding confidentiality of the external expert's work and the inputs to that work.
- The expected content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- Expectations regarding the external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the sustainability assurance client, or those working for or under the direction of the client, of which the external expert becomes aware when performing the work.

### **Evaluating the External Expert's Competence, Capabilities, and Objectivity**

#### *All Professional Services*

**R5390.6** The sustainability assurance practitioner shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose.

5390.6 A1 A self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a sustainability assurance practitioner uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service.

5390.6 A2 Factors that are relevant in evaluating the competence of the external expert include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body and, if so, whether the external expert is in good standing.
- Whether the external expert's work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work for the sustainability assurance practitioner's firm or other clients.

5390.6 A3 Factors that are relevant in evaluating the capabilities of the external expert include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

5390.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:

- Whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
- Whether the external expert or their employing organization has a conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the sustainability assurance practitioner knows or is aware of any bias that might affect the external expert's work.
- Whether the external expert will evaluate or rely on any previous judgments made or activities performed by the external expert or their employing organization in undertaking the work.

5390.6 A5 Examples of previous judgments made or activities performed by an external expert or their employing organization that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information for the entity which is then used by the external expert in performing the work or is the subject of that work.

5390.6 A6 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.
- Inquiry of others within or outside the sustainability assurance practitioner's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Inquiry of the external expert's professional body or industry association.

- Articles, papers or books written by the external expert and published by a recognized publisher or in a recognized journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Inquiry of the sustainability assurance client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the sustainability assurance practitioner's firm.

### *Sustainability or Other Assurance Engagements*

5390.7 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in a sustainability or other assurance engagement. Therefore, paragraphs R5390.8 to R5390.11 set out further actions in evaluating the objectivity of an external expert in a sustainability or other assurance engagement pursuant to paragraph R5390.6.

**R5390.8** The sustainability assurance practitioner shall request the external expert to provide, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period, information about:

- (a) Any direct financial interest or material indirect financial interest held by the external expert, their immediate family, or the external expert's employing organization in the entity;
- (b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing organization, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (c) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;
- (d) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (e) Any close business relationship between the external expert, their immediate family, or the external expert's employing organization and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is insignificant to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity or its management;
- (f) Any previous or current engagements between the external expert or their employing organization and the entity;
- (g) How long the external expert and their employing organization have been associated with the entity;
- (h) Any position as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information, or the records

underlying such information:

- (i) Held by the external expert or their immediate family;
- (ii) Held or previously held by the external expert; or
- (iii) Held or previously held by management of the external expert's employing organization;
- (i) Any previous public statements by the external expert or their employing organization which advocated for the entity;
- (j) Any fee or contingent fee or dependency on fees or other types of remuneration due to or received by the external expert or their employing organization from the entity;
- (k) Any benefits received by the external expert, their immediate family or the external expert's employing organization from the entity;
- (l) Any conflict of interest the external expert or their employing organization might have in relation to the work the external expert is performing at the entity; and
- (m) The nature and extent of any interests and relationships between the controlling owners of the external expert's employing organization and the entity.

**R5390.9** Where the external expert uses a team to carry out the work, the sustainability assurance practitioner shall request the external expert to have all members of the external expert's team provide the information set out in paragraph R5390.8, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period.

**R5390.10** The sustainability assurance practitioner shall request the external expert to communicate any changes in facts or circumstances regarding the matters set out in paragraph R5390.8 that might arise during the period covered by the assurance report and the engagement period.

**R5390.11** Where the sustainability assurance client is not the entity at which the external expert is performing the work, the sustainability assurance practitioner shall also request the external expert to disclose, in relation to the period covered by the assurance report and the engagement period, information about interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organization and the client.

5390.11 A1 Examples of interests, relationships or circumstances between the external expert and the sustainability assurance client that might be included in the evaluation of the external expert's objectivity include:

- Any direct financial interest or material indirect financial interest in the sustainability assurance client held by the external expert, their immediate family, or the external expert's employing organization.
- Any interests or relationships of the external expert, their immediate family or the external expert's employing organization with the sustainability assurance client and those entities over which it has direct or indirect control.
- Any conflicts of interest the external expert, their immediate family or the external expert's employing organization might have with the sustainability assurance client.

5390.11 A2 Information about interests, relationships or circumstances between an external expert or their employing organization and the sustainability assurance client might be obtained from inquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

*All Professional Services*

**R5390.12** The sustainability assurance practitioner shall not use the work of the external expert if:

- (a) The practitioner is unable to obtain the information needed for the practitioner's evaluation of the external expert's competence, capabilities and objectivity; or
- (b) The practitioner determines that the external expert is not competent, capable or objective.

**Potential Threats Arising from Using the Work of an External Expert**

*All Professional Services*

5390.13 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a sustainability assurance practitioner has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose.

*Identifying Threats*

5390.14 A1 Examples of facts and circumstances that might create threats to a sustainability assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
  - A sustainability assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.
  - A sustainability assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional service.
  - A sustainability assurance practitioner has insufficient time or resources to evaluate the external expert's work.
- (b) Advocacy threats
  - A sustainability assurance practitioner promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the sustainability assurance client.
- (c) Familiarity threats
  - A sustainability assurance practitioner has a close personal relationship with the external expert.
- (d) Intimidation threats
  - A sustainability assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.

### *Evaluating Threats*

5390.15 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The sustainability assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The sustainability assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the sustainability assurance practitioner's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

### *Addressing Threats*

5390.16 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

5390.16 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel who have the necessary expertise and experience to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the sustainability assurance client additional time or resources to complete the engagement.

## Other Matters

### *External Experts in Emerging Fields or Areas*

5390.17 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

5390.17 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 5390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the sustainability assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

### *Using the Work of Multiple External Experts*

**R5390.18** When a sustainability assurance practitioner uses the work of more than one external expert in the performance of a professional service, the practitioner shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.

### *Inherent Limitations in Evaluating an External Expert's Competence, Capabilities or Objectivity*

5390.19 A1 Paragraph R5113.3 sets out communication responsibilities for the sustainability assurance practitioner with respect to limitations inherent in the practitioner's professional services. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

### *Communicating with Management and Those Charged with Governance When Using the Work of an External Expert*

5390.20 A1 The sustainability assurance practitioner is encouraged to communicate with management, and where appropriate, those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the sustainability assurance practitioner and the external expert in the performance of the professional service.
- Any threats to the practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.



*Documentation*

5390.21 A1 The sustainability assurance practitioner is encouraged to document:

- The results of any discussions with the external expert.
- The steps taken by the practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the practitioner in using the external expert's work and the actions taken to address the threats.

# INTERNATIONAL INDEPENDENCE STANDARDS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

## SECTION 5400

### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

#### Introduction

##### General

5400.1 It is in the public interest and required by the Code that sustainability assurance practitioners be independent when performing sustainability assurance engagements.

**[Paragraph 5400.2 is intentionally left blank]**

5400.3 In this Part, the term “sustainability assurance practitioner” refers to individuals and their firms conducting sustainability assurance engagements.

#### *Scope of the International Independence Standards in Part 5*

5400.3a The International Independence Standards in this Part only apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:

- (a) Is reported in accordance with a general purpose framework; and
- (b) Is
  - (i) Required to be provided in accordance with law or regulation; or
  - (ii) Publicly disclosed to support decision-making by investors or other stakeholders.

5400.3b Law or regulation might also require the application of the International Independence Standards in Part 5 to sustainability assurance engagements other than those described in paragraph 5400.3a.

5400.3c The International Independence Standards in Part 5 apply to both reasonable assurance and limited assurance sustainability assurance engagements. In this Part, references are made to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

5400.3d An assurance engagement might be either an attestation engagement or a direct engagement. The International Independence Standards in this Part cover only sustainability assurance engagements that are attestation engagements.

5400.3e Part 4B of the Code sets out International Independence Standards for other sustainability assurance engagements that are not within the scope of the International Independence Standards in this Part. These include, for example:

- A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported solely in accordance with:
  - A framework designed to meet the information needs of specified users; or

- Entity-developed criteria.
- A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

### *Quality Management*

5400.3f Quality management within firms that perform sustainability assurance engagements is an integral part of high-quality sustainability assurance engagements. Sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, ISSA 5000 requires compliance with ISQM 1 or other legal, regulatory or professional requirements that are at least as demanding as ISQM 1.

5400.4 Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Relevant ethical requirements are those related to the firm, its personnel and, when applicable, others subject to the independence requirements to which the firm and the firm's engagements are subject. The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of the International Independence Standards in this Part do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference.

5400.5 Independence is linked to the principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or a sustainability assurance team member's, integrity, objectivity, or professional skepticism has been compromised.

In the International Independence Standards in this Part, references to an individual or firm being "independent" mean that the individual or firm has complied with the provisions of this Part.

5400.6 When performing sustainability assurance engagements, the Code requires firms to comply with the fundamental principles and be independent. This Part sets out specific requirements and application material on how to apply the conceptual framework to maintain independence when performing such engagements. The conceptual framework set out in Section 5120 applies to independence as it does to the fundamental principles set out in Section 5110. Section 5405 sets out specific requirements and application material applicable in a group sustainability assurance engagement.

5400.7 The International Independence Standards in this Part describe:

- (a) Facts and circumstances, including professional activities, interests and relationships, that create or might create threats to independence;
- (b) Potential actions, including safeguards, that might be appropriate to address any such threats; and

- (c) Some situations where the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

### **Engagement Team and Sustainability Assurance Team**

- 5400.8 The International Independence Standards in this Part apply to all sustainability assurance team members, including engagement team members.
- 5400.9 An engagement team for a sustainability assurance engagement includes all leaders and staff in the firm who perform assurance procedures on the engagement, and any other individuals who perform such procedures who are from within or outside the firm's network.

### **[Paragraph 5400.10 is intentionally left blank]**

- 5400.10a If the firm intends to use the work of another sustainability assurance practitioner and the firm is able to direct, supervise and review the practitioner's work, that practitioner is a member of the engagement team. For example, an individual from a component sustainability assurance firm who performs assurance procedures on the sustainability information of a component for purposes of a group sustainability assurance engagement is a member of the engagement team for the group sustainability assurance engagement.
- 5400.11 Sustainability assurance engagements might be performed on a wide range of sustainability matters that require specialized skills and knowledge beyond those possessed by the engagement team. A sustainability assurance engagement might therefore involve experts within, or engaged by, the firm, a network firm, or a component sustainability assurance firm who assist in the engagement. Depending on the role of the individuals, they might be engagement team or sustainability assurance team members. For example:
- Individuals with expertise in a specialized area of sustainability reporting or assurance who perform assurance procedures are engagement team members. These include, for example, individuals with expertise in the measurement of specific sustainability matters or in analyzing complex information produced by automated tools and techniques for the purpose of identifying unusual or unexpected relationships.
  - Individuals within, or engaged by, the firm who have direct influence over the outcome of the sustainability assurance engagement through consultation regarding technical or industry-specific issues, transactions or events for the engagement are sustainability assurance team members but not engagement team members.

However, individuals who are external experts are neither engagement team nor sustainability assurance team members. [Ref.: Section 5390]

- 5400.12 If the sustainability assurance engagement is subject to an engagement quality review, the engagement quality reviewer and any other individuals performing the engagement quality review are sustainability assurance team members but not engagement team members.

### **Involvement of Another Practitioner in a Sustainability Assurance Engagement**

- 5400.12a Although a sustainability assurance client's sustainability information and financial statements might relate to the same reporting entity, the reporting boundary for sustainability information might differ from that for purposes of preparing the financial statements. For example, the reporting boundary might include activities, operations, relationships or resources up and down the entity's value chain.

- 5400.12b There might be other practitioners who perform assurance work related to the engagement whose work the firm might be unable to direct, supervise and review. For example, another practitioner might already have completed their engagement, or that practitioner might be unable to cooperate with the firm because there are restrictions on access to information or people due to law, regulation or other conditions.
- 5400.12c When another practitioner performs assurance work related to the engagement and the firm is unable to direct, supervise and review that work, that practitioner is not a member of the engagement team. Section 5406 of this Part sets out specific requirements and application material when a firm plans to use the work of such a practitioner.

### **Public Interest Entities**

- 5400.13 Some of the requirements and application material set out in this Part are applicable only to the sustainability assurance engagements of public interest entities. An entity is a public interest entity in this Part if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.
- 5400.13a A firm performing the audit of an entity's financial statements might decide to voluntarily treat the entity as a public interest entity. In such circumstances, this does not mean that another firm performing a sustainability assurance engagement for that entity is required to treat that entity as a public interest entity for the purposes of the sustainability assurance engagement.

### **[Paragraph 5400.14 is intentionally left blank]**

- 5400.15 Stakeholders have heightened expectations regarding the independence of a firm performing a sustainability assurance engagement for a public interest entity. The purpose of the requirements and application material for public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's sustainability information that can be used for their decision-making purposes.

### **[Paragraph 5400.16 is intentionally left blank]**

### **Firms Performing Both Audit and Sustainability Assurance Engagements**

- 5400.16a Independence standards for audit and review engagements are set out in Part 4A – *Independence for Audit and Review Engagements*. If a firm performs both a sustainability assurance engagement and an audit or review engagement for the same client, the provisions in the Code applicable to audit and review engagements, including Part 4A, and this Part apply to the firm, a network firm and the audit team members.

### **[Paragraph 5400.17 is intentionally left blank]**

## **Requirements and Application Material**

### **General**

- R5400.18** A firm performing a sustainability assurance engagement shall be independent.
- R5400.19** A firm shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement.

## Prohibition on Assuming Management Responsibilities

- R5400.20** A firm or a network firm shall not assume a management responsibility for a sustainability assurance client.
- 5400.20 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 5400.20 A2 When a firm or a network firm assumes a management responsibility for a sustainability assurance client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.
- 5400.20 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction, for example, setting sustainable policies and goals.
  - Hiring or dismissing employees.
  - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
  - Authorizing transactions.
  - Deciding which recommendations of the firm or network firm or other third parties to implement.
  - Reporting to those charged with governance on behalf of management.
  - Taking responsibility for:
    - Developing criteria used by the client for reporting sustainability information.
    - The preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework, including identifying material sustainability matters to be reported.
    - Designing, implementing, monitoring or maintaining internal control.
    - Supply chain management.
    - Designing or implementing software to collect or produce sustainability data for the client.
    - Reporting on environmental credits or offsets.
    - Resource allocation for sustainability initiatives.
  - Controlling or managing bank accounts or investments.
- 5400.20 A4 Subject to compliance with paragraph R5400.21, providing advice and recommendations to assist the management of a sustainability assurance client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to a sustainability assurance client might create a self-review threat and is addressed in Section 5600.

**R5400.21** When performing a professional activity for a sustainability assurance client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
  - (i) The objectives, nature and results of the activities; and
  - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

5400.21 A1 When technology is used in performing a professional activity for a sustainability assurance client, the requirements in paragraphs R5400.20 and R5400.21 apply regardless of the nature or extent of such use of the technology.

#### **Public Interest Entities**

**[Paragraphs R5400.22 to 5400.24 A1 are intentionally left blank]**

**R5400.25** Subject to paragraph R5400.26, when a firm has applied the independence requirements for public interest entities as described in paragraph 5400.13 in performing a sustainability assurance engagement, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

**R5400.26** As an exception to paragraph R5400.25, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

#### **Related Entities**

**R5400.27** As defined, a sustainability assurance client that is a publicly traded entity includes all of its related entities. For all other entities, references to a sustainability assurance client in this Part include related entities over which the client has direct or indirect control. When the sustainability assurance team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 5400.28 to 5400.29 are intentionally left blank]**

### Period During which Independence is Required

**R5400.30** Independence, as required by the International Independence Standards in this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The reporting period for the engagement.

5400.30 A1 The engagement period starts when the engagement team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

5400.30 A2 The reporting period for the engagement might be the same as the period covered by the financial statements. The reporting period for the engagement does not refer to the period covered by the sustainability information from the start of historical information to the end of any forward-looking information.

**R5400.31** If an entity becomes a sustainability assurance client during or after the reporting period for the engagement, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the sustainability assurance client during or after the reporting period for the engagement but before accepting the sustainability assurance engagement; or
- (b) Previous services provided to the sustainability assurance client by the firm or a network firm.

5400.31 A1 Threats to independence are created if a non-assurance service was provided to a sustainability assurance client during, or after the reporting period for the engagement, but before the engagement team begins to perform the sustainability assurance engagement, and the service would not be permitted during the engagement period.

5400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the records underlying the sustainability information, the internal controls over sustainability reporting, or the sustainability information on which the firm will express an opinion.

5400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the sustainability assurance work or non-assurance service as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.



5400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the sustainability assurance engagement period or prior to the reporting period for the engagement is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period for which a sustainability assurance engagement has been undertaken by another firm.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5400.32** A firm shall not accept appointment to perform a sustainability assurance engagement for a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the sustainability information on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the sustainability assurance engagement period;
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

5400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment to provide a sustainability assurance service to that entity include:

- The results of the service had been subject to sustainability assurance procedures in the course of the sustainability assurance engagement of the prior period's sustainability information by a predecessor firm.
- The firm engages a practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a review of the first sustainability assurance engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
  - (i) Evaluate the results of the non-assurance service; or
  - (ii) Re-perform the service,

to the extent necessary to enable the other firm to take responsibility for the result of the service.

**[Paragraphs 5400.33 to 5400.39 are intentionally left blank]**

**Communication with those Charged with Governance**

5400.40 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

5400.40 A2 Even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and those charged with governance of the client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.

**[Paragraphs 5400.41 to 5400.49 are intentionally left blank]**

### **Network Firms**

5400.50 A1 Firms frequently form larger structures with other firms and entities to enhance their ability to provide professional services. Whether these larger structures create a network depends on the particular facts and circumstances. It does not depend on whether the firms and entities are legally separate and distinct.

**R5400.51** A network firm shall be independent of the sustainability assurance clients of the other firms within the network as required by this Part.

5400.51 A1 The independence requirements in this Part that apply to a network firm apply to any entity that meets the definition of a network firm. It is not necessary for the entity also to meet the definition of a firm. For example, a consulting practice or professional law practice might be a network firm but not a firm.

**R5400.52** When associated with a larger structure of other firms and entities, a firm shall:

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

**R5400.53** When determining whether a network is created by a larger structure of firms and other entities, a firm shall conclude that a network exists when such a larger structure is aimed at co-operation and:

- (a) It is clearly aimed at profit or cost sharing among the entities within the structure. (Ref: Para. 5400.53 A2);
- (b) The entities within the structure share common ownership, control or management. (Ref: Para. 5400.53 A3);
- (c) The entities within the structure share common quality management policies and procedures. (Ref: Para. 5400.53 A4);
- (d) The entities within the structure share a common business strategy. (Ref: Para. 5400.53 A5);
- (e) The entities within the structure share the use of a common brand name. (Ref: Para. 5400.53 A6, 5400.53 A7); or
- (f) The entities within the structure share a significant part of professional resources. (Ref: Para 5400.53 A8, 5400.53 A9).

- 5400.53 A1 There might be other arrangements between firms and entities within a larger structure that constitute a network, in addition to those arrangements described in paragraph R5400.53. However, a larger structure might be aimed only at facilitating the referral of work, which in itself does not meet the criteria necessary to constitute a network.
- 5400.53 A2 The sharing of immaterial costs does not in itself create a network. In addition, if the sharing of costs is limited only to those costs related to the development of sustainability assurance methodologies, manuals or training courses, this would not in itself create a network. Further, an association between a firm and an otherwise unrelated entity jointly to provide a service or develop a product does not in itself create a network. (Ref: Para. R5400.53(a)).
- 5400.53 A3 Common ownership, control or management might be achieved by contract or other means. (Ref: Para. R5400.53(b)).
- 5400.53 A4 Common quality management policies and procedures are those designed, implemented and operated across the larger structure. (Ref: Para. R5400.53(c)).
- 5400.53 A5 Sharing a common business strategy involves an agreement by the entities to achieve common strategic objectives. An entity is not a network firm merely because it co-operates with another entity solely to respond jointly to a request for a proposal for the provision of a professional service. (Ref: Para. R5400.53(d)).
- 5400.53 A6 A common brand name includes common initials or a common name. A firm is using a common brand name if it includes, for example, the common brand name as part of, or along with, its firm name when a leader of the firm signs a sustainability assurance report. (Ref: Para. R5400.53(e)).
- 5400.53 A7 Even if a firm does not belong to a network and does not use a common brand name as part of its firm name, it might appear to belong to a network if its stationery or promotional materials refer to the firm being a member of an association of firms. Accordingly, if care is not taken in how a firm describes such membership, a perception might be created that the firm belongs to a network. (Ref: Para. R5400.53(e)).
- 5400.53 A8 Professional resources include:
- Common systems that enable firms to exchange information such as client data, billing and time records.
  - Leaders and other personnel.
  - Technical departments that consult on technical or industry specific issues, transactions or events for assurance engagements.
  - Sustainability assurance methodology or sustainability assurance manuals.
  - Training courses and facilities. (Ref: Para. R5400.53(f)).
- 5400.53 A9 Whether the shared professional resources are significant depends on the circumstances. For example:
- The shared resources might be limited to common sustainability assurance methodology or sustainability assurance manuals, with no exchange of personnel or client or market information. In such circumstances, it is unlikely that the shared resources would be significant. The same applies to a common training endeavor.

- The shared resources might involve the exchange of personnel or information, such as where personnel are drawn from a shared pool, or where a common technical department is created within the larger structure to provide participating firms with technical advice that the firms are required to follow. In such circumstances, a reasonable and informed third party is more likely to conclude that the shared resources are significant. (Ref: Para. R5400.53(f)).

**R5400.54** If a firm or a network sells a component of its practice, and the component continues to use all or part of the firm's or network's name for a limited time, the relevant entities shall determine how to disclose that they are not network firms when presenting themselves to outside parties.

5400.54 A1 The agreement for the sale of a component of a practice might provide that, for a limited period of time, the sold component can continue to use all or part of the name of the firm or the network, even though it is no longer connected to the firm or the network. In such circumstances, while the two entities might be practicing under a common name, the facts are such that they do not belong to a larger structure aimed at cooperation. The two entities are therefore not network firms.

**[Paragraphs 5400.55 to 5400.59 are intentionally left blank]**

### **General Documentation of Independence for Sustainability Assurance Engagements**

**R5400.60** A firm shall document conclusions regarding compliance with the International Independence Standards in this Part, and the substance of any relevant discussions that support those conclusions. In particular:

- (a) When safeguards are applied to address a threat, the firm shall document the nature of the threat and the safeguards in place or applied; and
- (b) When a threat required significant analysis and the firm concluded that the threat was already at an acceptable level, the firm shall document the nature of the threat and the rationale for the conclusion.

5400.60 A1 Documentation provides evidence of the firm's judgments in forming conclusions regarding compliance with the International Independence Standards in this Part. However, a lack of documentation does not determine whether a firm considered a particular matter or whether the firm is independent.

**[Paragraphs 5400.61 to 5400.69 are intentionally left blank]**

### **Mergers and Acquisitions**

#### *When a Client Merger Creates a Threat*

5400.70 A1 An entity might become a related entity of a sustainability assurance client because of a merger or acquisition. A threat to independence and, therefore, to the ability of a firm to continue a sustainability assurance engagement might be created by previous or current interests or relationships between a firm or network firm and such a related entity.

**R5400.71** In the circumstances set out in paragraph 5400.70 A1,

- (a) The firm shall identify and evaluate previous and current interests and relationships with the related entity that, taking into account any actions taken to address the threat, might affect its independence and therefore its ability to continue the sustainability assurance engagement after the effective date of the merger or acquisition; and

- (b) Subject to paragraph R5400.72, the firm shall take steps to end any interests or relationships that are not permitted by the Code by the effective date of the merger or acquisition.

**R5400.72** As an exception to paragraph R5400.71(b), if the interest or relationship cannot reasonably be ended by the effective date of the merger or acquisition, the firm shall:

- (a) Evaluate the threat that is created by the interest or relationship; and
- (b) Discuss with those charged with governance the reasons why the interest or relationship cannot reasonably be ended by the effective date and the evaluation of the level of the threat.

5400.72 A1 In some circumstances, it might not be reasonably possible to end an interest or relationship creating a threat by the effective date of the merger or acquisition. This might be because the firm provides a non-assurance service to the related entity, which the entity is not able to transition in an orderly manner to another provider by that date.

5400.72 A2 Factors that are relevant in evaluating the level of a threat created by mergers and acquisitions when there are interests and relationships that cannot reasonably be ended include:

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

**R5400.73** If, following the discussion set out in paragraph R5400.72(b), those charged with governance request the firm to continue the sustainability assurance engagement, the firm shall do so only if:

- (a) The interest or relationship will be ended as soon as reasonably possible but no later than six months after the effective date of the merger or acquisition;
- (b) Any individual who has such an interest or relationship, including one that has arisen through performing a non-assurance service that would not be permitted by Section 5600 and its subsections, will not be a member of the engagement team for the sustainability assurance engagement or the individual responsible for the engagement quality review; and
- (c) Transitional measures will be applied, as necessary, and discussed with those charged with governance.

5400.73 A1 Examples of such transitional measures include:

- Having a sustainability assurance practitioner review the sustainability assurance or non-assurance work as appropriate.
- Having a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, perform a review that is consistent with the objective of an engagement quality review.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R5400.74** The firm might have completed a significant amount of work on the sustainability assurance engagement prior to the effective date of the merger or acquisition and might be able to complete the remaining assurance procedures within a short period of time. In such circumstances, if those charged

with governance request the firm to complete the sustainability assurance engagement while continuing with an interest or relationship identified in paragraph 5400.70 A1, the firm shall only do so if it:

- (a) Has evaluated the level of the threat and discussed the results with those charged with governance;
- (b) Complies with the requirements of paragraph R5400.73(b) to (c); and
- (c) Ceases to perform the sustainability assurance engagement no later than the date that the sustainability assurance report is issued.

*If Objectivity Remains Compromised*

**R5400.75** Even if all the requirements of paragraphs R5400.71 to R5400.74 could be met, the firm shall determine whether the circumstances identified in paragraph 5400.70 A1 create a threat that cannot be addressed such that objectivity would be compromised. If so, the firm shall cease to perform the sustainability assurance engagement.

*Documentation*

**R5400.76** The firm shall document:

- (a) Any interests or relationships identified in paragraph 5400.70 A1 that will not be ended by the effective date of the merger or acquisition and the reasons why they will not be ended;
- (b) The transitional measures applied;
- (c) The results of the discussion with those charged with governance; and
- (d) The reasons why the previous and current interests and relationships do not create a threat such that objectivity would be compromised.

**[Paragraphs 5400.77 to 5400.79 are intentionally left blank.]**

**Breach of an Independence Provision for Sustainability Assurance Engagements**

*When a Firm Identifies a Breach*

**R5400.80** If a firm concludes that a breach of an independence requirement in this Part has occurred, the firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Consider whether any legal or regulatory requirements apply to the breach and, if so:
  - (i) Comply with those requirements; and
  - (ii) Consider reporting the breach to a professional or regulatory body or oversight authority if such reporting is common practice or expected in the relevant jurisdiction;
- (c) Promptly communicate the breach in accordance with its policies and procedures to:
  - (i) The engagement leader;
  - (ii) The individual with operational responsibility for compliance with independence requirements;

- (iii) Other relevant personnel in the firm and, where appropriate, the network; and
  - (iv) Those subject to the independence requirements in Part 5 who need to take appropriate action;
- (d) Evaluate the significance of the breach and its impact on the firm's objectivity and ability to issue a sustainability assurance report; and
- (e) Depending on the significance of the breach, determine:
  - (i) Whether to end the sustainability assurance engagement; or
  - (ii) Whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.

In making this determination, the firm shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the firm's objectivity would be compromised, and therefore, the firm would be unable to issue a sustainability assurance report.

5400.80 A1 A breach of an independence provision of this Part might occur despite the firm having a system of quality management designed to address independence requirements. It might be necessary to end the sustainability assurance engagement because of the breach.

5400.80 A2 The significance and impact of a breach on the firm's objectivity and ability to issue a sustainability assurance report will depend on factors such as:

- The nature and duration of the breach.
- The number and nature of any previous breaches with respect to the current sustainability assurance engagement.
- Whether a sustainability assurance team member had knowledge of the interest or relationship that created the breach.
- Whether the individual who created the breach is a sustainability assurance team member or another individual for whom there are independence requirements.
- If the breach relates to a sustainability assurance team member, the role of that individual.
- If the breach was created by providing a professional service, the impact of that service, if any, on the records underlying, or data comprising, the sustainability information on which the firm will express an opinion.
- The extent of the self-interest, advocacy, intimidation or other threats created by the breach.

5400.80 A3 Depending upon the significance of the breach, examples of actions that the firm might consider to address the breach satisfactorily include:

- Removing the relevant individual from the sustainability assurance team.
- Using different individuals to conduct an additional review of the affected assurance work or to re-perform that work to the extent necessary.
- Recommending that the sustainability assurance client engage another firm to review or re-perform the affected assurance work to the extent necessary.
- If the breach relates to a non-assurance service that affects the records underlying, or data

comprising, the sustainability information on which the firm will express an opinion, engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

**R5400.81** If the firm determines that action cannot be taken to address the consequences of the breach satisfactorily, the firm shall inform those charged with governance as soon as possible and take the steps necessary to end the sustainability assurance engagement in compliance with any applicable legal or regulatory requirements. Where ending the engagement is not permitted by laws or regulations, the firm shall comply with any reporting or disclosure requirements.

**R5400.82** If the firm determines that action can be taken to address the consequences of the breach satisfactorily, the firm shall discuss with those charged with governance:

- (a) The significance of the breach, including its nature and duration;
- (b) How the breach occurred and how it was identified;
- (c) The action proposed or taken and why the action will satisfactorily address the consequences of the breach and enable the firm to issue a sustainability assurance report;
- (d) The conclusion that, in the firm's professional judgment, objectivity has not been compromised and the rationale for that conclusion; and
- (e) Any steps proposed or taken by the firm to reduce or avoid the risk of further breaches occurring.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

*Communication of Breaches to Those Charged with Governance*

5400.83 A1 Paragraphs R5300.9 and R5300.10 set out requirements with respect to communicating with those charged with governance.

**R5400.84** With respect to breaches, the firm shall communicate in writing to those charged with governance:

- (a) All matters discussed in accordance with paragraph R5400.82 and obtain the concurrence of those charged with governance that action can be, or has been, taken to satisfactorily address the consequences of the breach; and
- (b) A description of:
  - (i) The firm's policies and procedures relevant to the breach designed to provide it with reasonable assurance that independence is maintained; and
  - (ii) Any steps that the firm has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring.

**R5400.85** If those charged with governance do not concur that the action proposed by the firm in accordance with paragraph R5400.80(e)(ii) satisfactorily addresses the consequences of the breach, the firm shall take the steps necessary to end the sustainability assurance engagement in accordance with paragraph R5400.81.



*Breaches Before the Previous Sustainability Assurance Report Was Issued*

**R5400.86** If the breach occurred prior to the issuance of the previous sustainability assurance report, the firm shall comply with the independence provisions of this Part in evaluating the significance of the breach and its impact on the firm's objectivity and its ability to issue a sustainability assurance report in the current period.

**R5400.87** The firm shall also:

- (a) Consider the impact of the breach, if any, on the firm's objectivity in relation to any previously issued sustainability assurance reports, and the possibility of withdrawing such reports; and
- (b) Discuss the matter with those charged with governance.

*Documentation*

**R5400.88** In complying with the requirements in paragraphs R5400.80 to R5400.87, the firm shall document:

- (a) The breach;
- (b) The actions taken;
- (c) The key decisions made;
- (d) All the matters discussed with those charged with governance; and
- (e) Any discussions with a professional or regulatory body or oversight authority.

**R5400.89** If the firm continues with the sustainability assurance engagement, it shall document:

- (a) The conclusion that, in the firm's professional judgment, objectivity has not been compromised; and
- (b) The rationale for why the action taken satisfactorily addressed the consequences of the breach so that the firm could issue a sustainability assurance report.

## **SECTION 5405**

### **GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS**

#### **Introduction**

5405.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when performing a group sustainability assurance engagement.

#### **Requirements and Application Material**

##### **General**

- 5405.2 A1 Depending on the sustainability reporting framework, the firm might express an opinion on group sustainability information that includes information about components within the group. The firm might use the work of a component sustainability assurance firm for the purpose of the group sustainability assurance engagement. In such circumstances, the applicable sustainability assurance standard might require the group engagement leader to be sufficiently and appropriately involved in the work of that component sustainability assurance firm, including directing, supervising and reviewing that work.
- 5405.2 A1a This section sets out requirements and application material that are applicable to the group sustainability assurance firm, component sustainability assurance firms and members of the group sustainability assurance team.
- 5405.2 A1b Where the group sustainability assurance firm uses the work of another firm, which performs assurance work at the sustainability assurance client, for purposes of the group sustainability assurance engagement, this section only applies where the group sustainability assurance firm is able to direct, supervise and review the work of that firm.
- 5405.2 A2 A component sustainability assurance firm that participates in a group sustainability assurance engagement might separately issue an assurance opinion on the sustainability information of the component sustainability assurance client. Depending on the circumstances, the component sustainability assurance firm might need to comply with different independence requirements when performing assurance work for a group sustainability assurance engagement and separately issuing an assurance opinion on the sustainability information of the component sustainability assurance client for statutory, regulatory or other reasons.

#### **Communication Between a Group Sustainability Assurance Firm and a Component Sustainability Assurance Firm**

**R5405.3** The group engagement leader shall take responsibility to make a component sustainability assurance firm aware of the relevant ethics, including independence, provisions in this Part that are applicable given the nature and the circumstances of the group sustainability assurance engagement. When making the component sustainability assurance firm aware of the relevant ethics, including independence, provisions, the group sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component sustainability assurance firm to meet its responsibilities under this section.

- 5405.3 A1 Examples of matters the group sustainability assurance firm might communicate include:
- Whether the group sustainability assurance client is a public interest entity and the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement.
  - The related entities and other components within the group sustainability assurance client that are relevant to the independence considerations applicable to the component sustainability assurance firm and the group sustainability assurance team members within, or engaged by, that firm.
  - The period during which the component sustainability assurance firm is required to be independent.
  - Whether a sustainability assurance leader who performs work at the component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement.
- R5405.4** The group engagement leader shall take responsibility for requesting the component sustainability assurance firm to confirm whether it understands and will comply with the relevant provisions of this Part that apply to the group sustainability assurance engagement. The group engagement leader shall also request the component sustainability assurance firm to communicate:
- (a)** Any independence matters that require significant judgment; and
  - (b)** In relation to those matters, the component sustainability assurance firm's conclusion whether the threats to its independence are at an acceptable level, and the rationale for that conclusion.
- R5405a If a matter comes to the attention of the group engagement leader that indicates that a threat to independence exists, the group engagement leader shall evaluate the threat and take appropriate action.

**Independence Considerations Applicable to Individuals**

*Members of the Group Sustainability Assurance Team Within, or Engaged by, a Group Sustainability Assurance Firm and Its Network Firms*

- R5405.5** Members of the group sustainability assurance team within, or engaged by, the group sustainability assurance firm and its network firms shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

*Other Members of the Group Sustainability Assurance Team*

- R5405.6** Members of the group sustainability assurance team within, or engaged by, a component sustainability assurance firm outside the group sustainability assurance firm's network shall be independent of:
- (a)** The component sustainability assurance client;
  - (b)** The entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and

(c) Any entity over which the entity in subparagraph (b) has direct or indirect control, provided that such entity has direct or indirect control over the component sustainability assurance client, in accordance with the requirements of this Part that are applicable to the sustainability assurance team.

**R5405.7** In relation to related entities or components within the group sustainability assurance client other than those covered in paragraph R5405.6, a member of the group sustainability assurance team within, or engaged by, a component sustainability assurance firm outside the group sustainability assurance firm's network shall notify the component sustainability assurance firm about any relationship or circumstance the individual knows, or has reason to believe, might create a threat to the individual's independence in the context of the group sustainability assurance engagement.

5405.7A1 Examples of relationships or circumstances involving the individual or any of the individual's immediate family members, as applicable, that are relevant to the individual's consideration when complying with paragraph R5405.7 include:

- A direct or material indirect financial interest in an entity that has control over the group sustainability assurance client if the group sustainability assurance client is material to that entity (see Section 5510).
- A loan or guarantee involving: (see Section 5511)
  - An entity that is not a bank or similar institution unless the loan or guarantee is immaterial; or
  - A bank or similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- A business relationship that is significant or involves a material financial interest (see Section 5520).
- An immediate family member who is: (see Section 5521)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.
- The individual serving as, or having recently served as: (see Section 5522 and Section 5523)
  - A director or officer of an entity; or
  - An employee in a position to exert significant influence over the preparation of an entity's sustainability information data or records or sustainability information.

**R5405.8** Upon receiving the notification as set out in paragraph R5405.7, the component sustainability assurance firm shall evaluate and address any threats to independence created by the individual's relationship or circumstance.

#### **Independence Considerations Applicable to a Group Sustainability Assurance Firm**

**R5405.9** A group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a firm.

**Independence Considerations Applicable to Network Firms of a Group Sustainability Assurance Firm**

**R5405.10** A network firm of the group sustainability assurance firm shall be independent of the group sustainability assurance client in accordance with the requirements of this Part that are applicable to a network firm.

**Independence Considerations Applicable to Component Sustainability Assurance Firms outside a Group Sustainability Assurance Firm's Network**

*All Group Sustainability Assurance Clients*

**R5405.11** A component sustainability assurance firm outside the group sustainability assurance firm's network shall:

- (a) Be independent of the component sustainability assurance client in accordance with the requirements set out in this Part that are applicable to a firm with respect to all sustainability assurance clients;
- (b) Apply the relevant requirements in paragraphs R5510.4(a), R5510.7 and R5510.9 with respect to financial interests in the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion; and
- (c) Apply the relevant requirements in Section 5511 with respect to loans and guarantees involving the entity on whose group sustainability information the group sustainability assurance firm expresses an opinion.

**R5405.12** When a component sustainability assurance firm outside the group sustainability assurance firm's network knows, or has reason to believe, that a relationship or circumstance involving the group sustainability assurance client, beyond those addressed in paragraph R5405.11(b) and (c), is relevant to the evaluation of the component sustainability assurance firm's independence from the component sustainability assurance client, the component sustainability assurance firm shall include that relationship or circumstance when identifying, evaluating and addressing threats to independence.

**R5405.13** When a component sustainability assurance firm outside the group sustainability assurance firm's network knows, or has reason to believe, that a relationship or circumstance of a firm within the component sustainability assurance firm's network with the component sustainability assurance client or the group sustainability assurance client creates a threat to the component sustainability assurance firm's independence, the component sustainability assurance firm shall evaluate and address any such threat.

Period During which Independence is Required

**[Paragraph 5405.14 A1 is intentionally left blank]**

*Group Sustainability Assurance Clients that are Not Public Interest Entities*

**R5405.15** When the group sustainability assurance client is not a public interest entity, a component sustainability assurance firm outside the group sustainability assurance firm's network shall be independent of the component sustainability assurance client in accordance with the requirements set out in this Part that are applicable to sustainability assurance clients that are not public interest entities for the purposes of the group sustainability assurance engagement.

5405.15 A1 Where a component sustainability assurance firm outside the group sustainability assurance firm's network also performs a sustainability assurance engagement for a component sustainability assurance client that is a public interest entity for reasons other than the group sustainability assurance engagement, for example, a statutory sustainability assurance engagement, the independence requirements that are relevant to sustainability assurance clients that are public interest entities apply to that engagement.

*Group Sustainability Assurance Clients that are Public Interest Entities*

Non-Assurance Services

**R5405.16** Subject to paragraph R5405.17, when the group sustainability assurance client is a public interest entity, a component sustainability assurance firm outside the group sustainability assurance firm's network shall comply with the provisions in Section 5600 that are applicable to public interest entities with respect to provision of non-assurance services to the component sustainability assurance client.

5405.16 A1 Where the group sustainability assurance client is a public interest entity, a component sustainability assurance firm outside the group sustainability assurance firm's network is prohibited from, for example:

- Providing sustainability data and information services that might affect the sustainability information on which the component sustainability assurance firm performs assurance work to a component sustainability assurance client that is not a public interest entity (see Subsection 5601).
- Designing the information technology system, or an aspect of it, for a component sustainability assurance client that is not a public interest entity where such information technology system generates information for the component sustainability assurance client's sustainability records or the sustainability information on which the component sustainability assurance firm will perform assurance work (see Subsection 5606).
- Acting in an advocacy role for a component sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court (see Subsection 5608).

5405.16 A2 The sustainability information on which a component sustainability assurance firm outside the group sustainability assurance firm's network performs assurance procedures is relevant to the evaluation of the self-review threat that might be created by the component sustainability assurance firm's provision of a non-assurance service, and therefore the application of Section 5600. For example, if the component sustainability assurance firm's assurance procedures are limited to a specific item such as greenhouse gas emissions, the results of any non-assurance service that form part of or affect the sustainability records or the sustainability information related to the reporting on, or the internal controls over, greenhouse gas emissions are relevant to the evaluation of the self-review threat.

**R5405.17** As an exception to paragraph R5405.16, a component sustainability assurance firm outside the group sustainability assurance firm's network may provide a non-assurance service that is not prohibited under Section 5600 to a component sustainability assurance client without communicating information about the proposed non-assurance service to those charged with governance of the group sustainability assurance client or obtaining their concurrence regarding the provision of that service as addressed by paragraphs R5600.21 to R5600.24.

## Key Sustainability Assurance Leaders

**R5405.18** The group engagement leader shall determine whether a sustainability assurance leader who performs assurance work at a component for purposes of the group sustainability assurance engagement is a key sustainability assurance leader for the group sustainability assurance engagement. If so, the group engagement leader shall:

- (a) Communicate that determination to that individual; and
- (b) Indicate:
  - (i) In the case of all group sustainability assurance clients, that the individual is subject to paragraph R5411.4; and
  - (ii) In the case of group sustainability assurance clients that are public interest entities, that the individual is also subject to paragraphs R5524.6, R5540.5(c) and R5540.20.

5405.18 A1 A key sustainability assurance leader makes key decisions or judgments on significant matters with respect to the sustainability assurance engagement of the group sustainability information on which the group sustainability assurance firm expresses an opinion in the group sustainability assurance engagement.

## Changes in Components

### *All Group Sustainability Assurance Clients*

**R5405.19** When an entity that is not a related entity becomes a component within the group sustainability assurance client, the group sustainability assurance firm shall apply paragraphs R5400.71 to R5400.76.

## Changes in Component Sustainability Assurance Firms

### *All Group Sustainability Assurance Clients*

5405.20 A1 There might be circumstances in which the group sustainability assurance firm requests another firm to perform assurance work as a component sustainability assurance firm during or after the reporting period for the engagement, for example, due to a client merger or acquisition. A threat to the component sustainability assurance firm's independence might be created by:

- (a) Financial or business relationships of the component sustainability assurance firm with the component sustainability assurance client during or after the reporting period for the engagement but before the component sustainability assurance firm agrees to perform the assurance work; or
- (b) Previous services provided to the component sustainability assurance client by the component sustainability assurance firm.

5405.20 A2 Paragraphs 5400.31 A1 to A3 set out application material that is applicable for a component sustainability assurance firm's assessment of threats to independence if a non-assurance service was provided by the component sustainability assurance firm to the component sustainability assurance client during or after the reporting period for the engagement, but before the component sustainability assurance firm begins to perform the assurance work for the purposes of the group sustainability assurance engagement, and the service would not be permitted during the engagement period.

5405.20 A3 Paragraph 5400.31 A4 sets out application material that is applicable for a component sustainability assurance firm's assessment of threats to independence if a non-assurance service was provided by the component sustainability assurance firm to the component sustainability assurance client prior to the reporting period for the engagement.

*Group Sustainability Assurance Clients that are Public Interest Entities*

5405.21 A1 Paragraphs R5400.32 and 5400.32 A1 are applicable when a component sustainability assurance firm agrees to perform assurance work for group sustainability assurance purposes in relation to a group sustainability assurance client that is a public interest entity if the component sustainability assurance firm has previously provided a non-assurance service to the component sustainability assurance client.

5405.21 A2 Paragraphs R5600.25 and 5600.25 A1 are applicable in relation to a non-assurance service provided, either currently or previously, by a component sustainability assurance firm to a component sustainability assurance client when the group sustainability assurance client subsequently becomes a public interest entity.

**Breach of an Independence Provision at a Component Sustainability Assurance Firm**

5405.22 A1 A breach of a provision of this section might occur despite a component sustainability assurance firm having a system of quality management designed to address independence requirements. Paragraphs R5405.23 to R5405.29 are relevant to a group sustainability assurance firm's determination as to whether it would be able to use a component sustainability assurance firm's work if a breach has occurred at the component sustainability assurance firm.

5405.22 A2 In the case of a breach at a component sustainability assurance firm within the group sustainability assurance firm's network, paragraphs R5400.80 to R5400.89 also apply to the group sustainability assurance firm in relation to the group sustainability assurance engagement, as applicable.

*When a Component Sustainability Assurance Firm Identifies a Breach*

**R5405.23** If a component sustainability assurance firm concludes that a breach of this section has occurred, the component sustainability assurance firm shall:

- (a) End, suspend or eliminate the interest or relationship that created the breach and address the consequences of the breach;
- (b) Evaluate the significance of the breach and its impact on the component sustainability assurance firm's objectivity and ability to perform assurance work for the purposes of the group sustainability assurance engagement;
- (c) Depending on the significance of the breach, determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances; and
- (d) Promptly communicate in writing the breach to the group engagement leader, including the component sustainability assurance firm's assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.



- 5405.23 A1 Paragraphs 5400.80 A2 and A3 set out application material relevant to the component sustainability assurance firm's evaluation of the significance and impact of the breach on the component sustainability assurance firm's objectivity and ability to issue an opinion or conclusion on the assurance work performed at the component for purposes of the group sustainability assurance engagement, and its consideration of any actions that might be taken to address the consequences of the breach satisfactorily.
- R5405.24** Upon receipt of the component sustainability assurance firm's communication of the breach, the group engagement leader shall:
- (a) Review the component sustainability assurance firm's assessment of the significance of the breach and its impact on the component sustainability assurance firm's objectivity, and any action that can be or has been taken to address the consequences of the breach;
  - (b) Evaluate the group sustainability engagement firm's ability to use the work of the component sustainability assurance firm for the purposes of the group sustainability assurance engagement; and
  - (c) Determine the need for any further action.
- R5405.25** In applying paragraph R5405.24, the group engagement leader shall exercise professional judgment and take into account whether a reasonable and informed third party would be likely to conclude that the component sustainability assurance firm's objectivity is compromised, and therefore, the group sustainability assurance firm is unable to use the work of the component sustainability assurance firm for the purposes of the group sustainability assurance engagement.
- 5405.25 A1 If the group engagement leader determines that the consequences of the breach have been satisfactorily addressed by the component sustainability assurance firm and do not compromise the component sustainability assurance firm's objectivity, the group sustainability assurance firm may continue to use the work of the component sustainability assurance firm for the group sustainability assurance engagement. In certain circumstances, the group engagement leader might determine that additional actions are needed to satisfactorily address the breach in order to use the component sustainability assurance firm's work. Examples of such action include the group sustainability assurance firm performing specific procedures on the areas impacted by the breach or requesting the component sustainability assurance firm to perform appropriate remedial work on the affected areas.
- 5405.25 A2 If there has been a breach by a component sustainability assurance firm and the breach has not been satisfactorily addressed, the group sustainability assurance firm cannot use the work of that component sustainability assurance firm. In those circumstances, the group engagement leader might find other means to obtain the necessary assurance evidence on the component sustainability assurance client's sustainability information. Examples of such means include the group sustainability assurance firm performing the necessary assurance work on the component sustainability assurance client's sustainability information or requesting another component sustainability assurance firm to perform such assurance work.

*Discussion with Those Charged with Governance of the Group Sustainability Assurance Client*

5405.26 A1 With respect to breaches by a component sustainability assurance firm within the group sustainability assurance firm's network, paragraph R5400.84 applies.

**R5405.27** With respect to breaches by a component sustainability assurance firm outside the group sustainability assurance firm's network, the group sustainability assurance firm shall discuss with those charged with governance of the group sustainability assurance client:

(a) The component sustainability assurance firm's assessment of the significance and impact of the breach on the component sustainability assurance firm's objectivity, including the nature and duration of the breach, and the action that can be or has been taken; and

(b) Whether

(i) The action will satisfactorily address, or has addressed, the consequences of the breach; or

(ii) The group sustainability assurance firm will use other means to obtain the necessary assurance evidence on the component sustainability assurance client's sustainability information.

Such discussion shall take place as soon as possible unless an alternative timing is specified by those charged with governance for reporting less significant breaches.

**R5405.28** The group sustainability assurance firm shall communicate in writing to those charged with governance of the group sustainability assurance client all matters discussed in accordance with paragraph R5405.27 and obtain the concurrence of those charged with governance that the action can be or has been taken to satisfactorily address the consequences of the breach.

**R5405.29** If those charged with governance do not concur that the action that can be or has been taken would satisfactorily address the consequences of the breach at the component sustainability assurance firm, the group sustainability assurance firm shall not use the work performed by the component sustainability assurance firm for the purposes of the group sustainability assurance engagement.

## **SECTION 5406**

### **ANOTHER PRACTITIONER INVOLVED IN A SUSTAINABILITY ASSURANCE ENGAGEMENT FOR A SINGLE ENTITY OR GROUP**

#### **Introduction**

5406.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when a firm uses the work of another practitioner that performs assurance work at the firm's sustainability assurance client and whose work the firm is unable to direct, supervise and review. Such a practitioner is referred to in this section as "another practitioner."

#### **Requirements and Application Material**

##### **General**

5406.2 A1 The sustainability information, prepared on a standalone or group basis, might include information that has been or will be assured by another practitioner. An example of such circumstance is where the client chooses to engage another practitioner in relation to certain sustainability information.

5406.2 A2 As a firm may use the work of another practitioner for standalone or group sustainability assurance engagements, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

##### **Communication Between the Firm and Another Practitioner**

**R5406.3** If the firm determines to use the work of another practitioner for purposes of the sustainability assurance engagement, the engagement leader shall take responsibility to make that practitioner aware of the relevant ethics, including independence, provisions in this Part that are applicable to the sustainability assurance client given the nature and the circumstances of the sustainability assurance engagement. When making another practitioner aware of the relevant provisions in this Part, the firm shall communicate at appropriate times the necessary information to enable that practitioner to confirm their compliance with those provisions.

5406.3 A1 Examples of matters the firm might communicate include:

- Whether the sustainability assurance client is a public interest entity and the relevant provisions applicable to the sustainability assurance engagement.
- The related entities within the sustainability assurance client that are relevant to the independence considerations applicable to the other practitioner.
- The period during which independence is required.

- R5406.4** If the firm intends to use the work of another practitioner, the engagement leader shall take responsibility for requesting that practitioner to confirm whether:
- (a) Where the work has yet to be carried out, the practitioner understands and will comply with the relevant ethics, including independence, provisions; or
  - (b) Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions.

**Independence Considerations When the Firm Intends to Use the Work of Another Practitioner**

- R5406.5** If the firm intends to use the work of another practitioner, the firm shall request that practitioner to confirm that:
- (a) The practitioner is independent of the entity on whose sustainability information the other practitioner performs assurance work in accordance with the independence requirements of this Part that are applicable to a firm with respect to a sustainability assurance client; and
  - (b) The individuals from that other practitioner who perform the assurance work are independent of that entity in accordance with the independence requirements of this Part that are applicable to a member of the sustainability assurance team with respect to a sustainability assurance client.

## **SECTION 5407**

### **INDEPENDENCE CONSIDERATIONS RELATING TO ASSURANCE WORK AT, OR WITH RESPECT TO, A VALUE CHAIN ENTITY**

#### **Introduction**

5407.1 Section 5400 requires a firm to be independent when performing a sustainability assurance engagement, and to apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework when a firm performs assurance work, or uses assurance work performed, at, or with respect to, a value chain entity for the purposes of the sustainability assurance engagement.

#### **Requirements and Application Material**

##### **General**

5407.2 A1 The sustainability information on which a firm expresses an opinion might include information from a value chain entity. In performing the sustainability assurance engagement in accordance with the relevant sustainability assurance standards, the firm might determine that assurance procedures need to be performed at, or with respect to, that value chain entity. In such circumstances, the firm might:

- (a) Perform the assurance work at the value chain entity;
- (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
- (c) Perform 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.

5407.2 A2 As information from value chain entities may be included in both standalone or group sustainability information, the references in this section to firm, engagement leader, sustainability assurance engagement, sustainability assurance team and sustainability assurance client also mean group sustainability assurance firm, group engagement leader, group sustainability assurance engagement, group sustainability assurance team and group sustainability assurance client, as applicable.

#### **Independence Considerations When a Firm Performs Assurance Work at a Value Chain Entity**

**R5407.3** If the firm performs assurance work at a value chain entity for the purposes of the sustainability assurance engagement, the firm and members of the sustainability assurance team shall be independent of the value chain entity in accordance with the independence requirements of this Part that are applicable to a firm and a sustainability assurance team member, as applicable, with respect to a sustainability assurance client.

**Independence Considerations When a Firm Intends to Use the Work of a Sustainability Assurance Practitioner at a Value Chain Entity**

- R5407.4** If the firm intends to use the work of a sustainability assurance practitioner who performs assurance work at a value chain entity, the firm shall be satisfied that that practitioner is independent of the value chain entity in accordance with the independence requirements of this Part that are applicable to a firm with respect to that entity.
- 5407.4 A1 For the purposes of meeting the requirement in paragraph R5407.4, the firm may rely on a statement of independence in the sustainability assurance practitioner's report.
- R5407.5** If the sustainability assurance practitioner has not provided a statement of independence in relation to the assurance work performed at the value chain entity, the engagement leader shall take responsibility for requesting the practitioner to confirm whether:
- (a) Where the work has yet to be carried out, the practitioner will comply with the relevant ethics, including independence, provisions of this Part; or
  - (b) Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions of this Part.

**Independence Considerations When a Firm Performs Assurance work on Sustainability Information of a Value Chain Entity Provided by the Sustainability Assurance Client Without Carrying out Assurance Work at that Entity**

- R5407.6** If 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, the firm and members of the sustainability assurance team shall be independent of the sustainability assurance client in accordance with the independence requirements of this Part.

## SECTION 5410

### FEES

#### Introduction

- 5410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5410.2 Section 5330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to sustainability assurance clients.

#### Requirements and Application Material

##### General

- 5410.3 A1 Fees for professional services are usually negotiated with and paid by a sustainability assurance client and might create threats to independence. This practice is generally recognized and accepted by intended users of sustainability information.
- 5410.3 A2 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for sustainability assurance clients that are public interest entities.
- 5410.3 A3 For the purposes of this section, sustainability assurance fees comprise fees or other types of remuneration for a sustainability assurance engagement.
- 5410.3 A4 If the firm also performs the audit engagement for the same client, the audit fees and fees for the sustainability assurance engagement are a matter for the firm and the client to agree. If the sustainability assurance engagement is a separate engagement, the provisions in this Part apply, in addition to the relevant provisions in Part 4A that apply to the separate audit engagement.

##### *Fees Paid by a Sustainability Assurance Client*

- 5410.4 A1 When fees are negotiated with and paid by a sustainability assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 5410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts a sustainability assurance engagement, or any other engagement for a sustainability assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the sustainability assurance engagement.
- 5410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for a sustainability assurance engagement, or any other engagement, are paid by the sustainability assurance client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the sustainability assurance engagement and those for services other than sustainability assurance and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, engagement leader or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than sustainability assurance are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the firm providing the sustainability assurance service and agreeing fees, and the apparent emphasis they and client management place on the quality of the sustainability assurance engagement and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's sustainability assurance work is subject to the review of an independent third party, such as an oversight body.

5410.4 A4 The conditions, policies and procedures described in paragraph 5120.15 A3 (particularly a system of quality management designed, implemented and operated by the firm in accordance with applicable quality management standards) might also impact the evaluation of whether the threats to independence are at an acceptable level.

5410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

#### **Level of Sustainability Assurance Fees**

5410.5 A1 Determining the fees to be charged to a sustainability assurance client, whether for sustainability assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

5410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the sustainability assurance fee paid by the sustainability assurance client include:

- The firm's commercial rationale for the sustainability assurance fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the sustainability assurance fee.



- 5410.5 A3 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who does not take part in the sustainability assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
  - Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the work performed.

*Impact of Other Services Provided to a Sustainability Assurance Client*

- R5410.6** Subject to paragraph R5410.7, a firm shall not allow the sustainability assurance fee to be influenced by the provision of services other than sustainability assurance to a sustainability assurance client by the firm or a network firm.
- 5410.6 A1 The sustainability assurance fee ordinarily reflects a combination of matters, such as those identified in paragraph 5410.23 A1. However, the provision of other services to a sustainability assurance client is not an appropriate consideration in determining the sustainability assurance fee.
- R5410.7** As an exception to paragraph R5410.6, when determining the sustainability assurance fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than sustainability assurance to a sustainability assurance client.

**Contingent Fees**

- 5410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.
- R5410.9** A firm shall not charge directly or indirectly a contingent fee for a sustainability assurance engagement.
- R5410.10** A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to a sustainability assurance client, if:
- (a) The fee is charged by the firm expressing the opinion on the sustainability information and the fee is material or expected to be material to that firm;
  - (b) The fee is charged by a network firm that participates in a significant part of the sustainability assurance engagement and the fee is material or expected to be material to that firm; or
  - (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the assurance of material information in the sustainability information on which the firm will express an opinion.
- 5410.10 A1 Paragraphs R5410.9 and R5410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with a sustainability assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to a sustainability assurance client, it might still impact the level of the self-interest threat.
- 5410.10 A2 Factors that are relevant in evaluating the level of such a threat include:
- The range of possible fee amounts.
  - Whether an appropriate authority determines the outcome on which the contingent fee depends.

- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the sustainability information on which the firm will express an opinion.

5410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

**Total Fees – Proportion of Fees for Services Other than Sustainability Assurance to Sustainability Assurance Fee**

5410.11 A1 Where a firm performs both an audit engagement and a sustainability assurance engagement for a sustainability assurance client, paragraphs 410.11 A1 to 410.11 A3 in Part 4A apply in the context of the fees charged by the firm and network firms to the sustainability assurance client. Where the firm is not engaged to perform an audit engagement for the client, paragraphs 5410.11 A2 to A4 apply.

5410.11 A2 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to a sustainability assurance client is generated by providing services other than sustainability assurance to the client, due to concerns about the potential loss of either the sustainability assurance engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-sustainability assurance relationship, which might create a threat to the sustainability assurance provider's independence.

5410.11 A3 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than sustainability assurance to the sustainability assurance fee.
- The length of time during which a large proportion of fees for services other than sustainability assurance to the sustainability assurance fee has existed.
- The nature, scope and purposes of the services other than sustainability assurance, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services to be performed by the firm.

5410.11 A4 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement or the service other than sustainability assurance review the relevant sustainability assurance work.
- Reducing the extent of services other than sustainability assurance provided to the sustainability assurance client.

**Total Fees – Overdue Fees**

- 5410.12 A1 The level of the self-interest threat might be impacted if fees payable by a sustainability assurance client for the sustainability assurance engagement or services other than sustainability assurance are overdue during the period of the sustainability assurance engagement.
- 5410.12 A2 It is generally expected that the firm will obtain payment of such fees before the sustainability assurance report is issued.
- 5410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:
- The significance of the overdue fees to the firm.
  - The length of time the fees have been overdue.
  - The firm's assessment of the ability and willingness of the sustainability assurance client to pay the overdue fees.
- 5410.12 A4 Examples of actions that might be safeguards to address such a threat include:
- Obtaining partial payment of overdue fees.
  - Having an appropriate reviewer who did not take part in the sustainability assurance engagement review the sustainability assurance work.
- R5410.13** When a significant part of the fees due from a sustainability assurance client remains unpaid for a long time, the firm shall determine:
- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 5511 are applicable; and
  - (b) Whether it is appropriate for the firm to be re-appointed or continue the sustainability assurance engagement.

**Total Fees – Fee Dependency**

*All Sustainability Assurance Clients*

- 5410.14 A1 When the total fees generated from a sustainability assurance client by the firm expressing the sustainability assurance opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from sustainability assurance and other services from that client impact the level of the self-interest threat and create an intimidation threat.
- 5410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 5410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
  - Whether the firm is expected to diversify such that any dependence on the sustainability assurance client is reduced.
- 5410.14 A4 Examples of actions that might be safeguards to address such threats include:
- Having an appropriate reviewer who is not a member of the firm review the sustainability assurance work.
  - Reducing the extent of services other than sustainability assurance provided to the sustainability assurance client.

- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

5410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from a sustainability assurance client represent a large proportion of the revenue of one leader or one office of the firm.

5410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the sustainability assurance client to the leader or office.
- The extent to which the compensation of the leader, or the leaders in the office, is dependent upon the fees generated from the client.

5410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the sustainability assurance engagement review the sustainability assurance work.
- Ensuring that the compensation of the leader is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than sustainability assurance provided by the leader or office to the sustainability assurance client.
- Increasing the client base of the leader or the office to reduce dependence on the client.
- Increasing the extent of services provided by the leader or the office to other clients.

#### Sustainability Assurance Clients that are Not Public Interest Entities

**R5410.15** When for each of five consecutive years total fees from a sustainability assurance client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the assurance opinion being issued on the fifth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, review the fifth year's sustainability assurance work; or
- (b) After the assurance opinion on the fifth year's sustainability information has been issued, and before the assurance opinion is issued on the sixth year's sustainability information, have a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, or a professional body review the fifth year's sustainability assurance work.

**R5410.16** If the total fees described in paragraph R5410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R5410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

**R5410.17** When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.15 (a), if:

- (a) The circumstances addressed by paragraph R5410.15 apply to only one of the firms expressing the assurance opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

Sustainability Assurance Clients that are Public Interest Entities

**R5410.18** When for each of two consecutive years the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the assurance opinion being issued on the second year's sustainability information, a review, consistent with the objective of an engagement quality review, performed by a sustainability assurance practitioner who is not a member of the firm expressing the opinion on the sustainability information ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

**R5410.19** When two or more firms are engaged to conduct a sustainability assurance engagement with respect to the client's sustainability information, the involvement of the other firm in the sustainability assurance engagement may be regarded each year as an action equivalent to that in paragraph R5410.18, if:

- (a) The circumstances addressed by paragraph R5410.18 apply to only one of the firms expressing the assurance opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the assurance opinion.

**R5410.20** Subject to paragraph R5410.21, if the circumstances described in paragraph R5410.18 continue for five consecutive years, the firm shall cease to be the sustainability assurance provider after the assurance opinion for the fifth year is issued.

**R5410.21** As an exception to paragraph R5410.20, the firm may continue to be the sustainability assurance practitioner after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

- (a)
  - (i) Where there is a designated regulatory or professional body in the relevant jurisdiction, the firm consults with that body and that body concurs that having the firm continue to provide the sustainability assurance service would be in the public interest; or
  - (ii) Where there is no designated regulatory or professional body in the relevant jurisdiction, the firm consults with and obtains concurrence from those charged with governance of the sustainability assurance client that having the firm continue to provide the sustainability assurance service would be in the public interest; and
- (b) Before the assurance opinion on the sixth and any subsequent year's sustainability information is issued, the firm engages a sustainability assurance practitioner, who is not a member of the firm expressing the opinion on the sustainability information, to perform a pre-issuance review.

5410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the sustainability assurance engagement, having regard to the nature and location of the client's business.

## Transparency of Information Regarding Fees for Sustainability Assurance Clients that are Public Interest Entities

### *Communication About Fee-related Information with Those Charged with Governance*

5410.22 A1 Communication by the firm of fee-related information (for both sustainability assurance and services other than sustainability assurance) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of sustainability assurance work and impact on the sustainability assurance fee.

### Fees for the Sustainability Assurance Engagement

**R5410.23** Subject to paragraph R5410.24, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) Fees paid or payable to the firm or network firms for the sustainability assurance engagement; and
- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.23 A1 The objective of such communication is to provide the background and context to the fees for the sustainability assurance engagement to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
  - The scale, complexity and geographic spread of the sustainability assurance client's operations.
  - The time spent or expected to be spent commensurate with the scope and complexity of the sustainability assurance engagement.
  - The cost of other resources utilized or expended in performing the sustainability assurance engagement.
  - The quality of record keeping and processes for sustainability information preparation.
- Adjustments to the fees quoted or charged during the period of the sustainability assurance engagement, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the sustainability assurance engagement that impacted the fees.

5410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

**R5410.24** As an exception to paragraph R5410.23, the firm may determine not to communicate the information set out in paragraph R5410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group sustainability information prepared by that other public interest entity; and

- (b) The firm or a network firm expresses an opinion on that group sustainability information.

#### Fees for Other Services

**R5410.25** Subject to paragraph R5410.27, the firm shall communicate in a timely manner with those charged with governance of a sustainability assurance client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R5410.23(a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the sustainability information on which the firm will express an opinion; and
- (b) As set out in paragraph 5410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than sustainability assurance relative to the sustainability assurance fee:
- (i) Whether such threats are at an acceptable level; and
- (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

5410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R5410.25(a) to the aggregate of the fees charged by the firm and network firms for the sustainability assurance engagement.

**R5410.26** The firm shall include in the communication required by paragraph R5410.25(a) the fees, other than those disclosed under paragraph R5410.23(a), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

5410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R5410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the sustainability assurance client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

- R5410.27** As an exception to paragraph R5410.25, the firm may determine not to communicate the information set out in paragraph R5410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:
- (a) The entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
  - (b) The firm or a network firm expresses an opinion on that group sustainability information.

Fee Dependency

- R5410.28** Where the total fees from a sustainability assurance client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:
- (a) That fact and whether this situation is likely to continue;
  - (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R5410.18); and
  - (c) Any proposal to continue the sustainability assurance engagement under paragraph R5410.21.

*Public Disclosure of Fee-related Information*

5410.29 A1 In view of the public interest in the assurance of sustainability information disclosed by public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the sustainability assurance client which might reasonably be thought to be relevant to the evaluation of the firm's independence.

- R5410.30** If laws and regulations do not require a sustainability assurance client to disclose sustainability assurance fees, fees for services other than sustainability assurance paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of a sustainability assurance client that is a public interest entity:
- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
  - (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

5410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for sustainability assurance and services other than sustainability assurance.
- The nature of services and their associated fees as disclosed under paragraph R5410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.



**R5410.31** After the discussion with those charged with governance as set out in paragraph R5410.30, to the extent that the sustainability assurance client that is a public interest entity does not make the relevant disclosure, subject to paragraph R5410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the sustainability assurance engagement;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the reporting period for the engagement. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control where the sustainability information of those entities is consolidated in the sustainability information on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the sustainability assurance client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the sustainability assurance client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

5410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 5410.30 A1.

5410.31 A2 Factors the firm might consider when making the determination required by paragraph R5410.31(c) are set out in paragraph 5410.26 A1.

5410.31 A3 When disclosing fee-related information in compliance with paragraph R5410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the sustainability assurance report.

**R5410.32** As an exception to paragraph R5410.31, the firm may determine not to publicly disclose the information set out in paragraph R5410.31 relating to:

- (a) A parent entity that also prepares group sustainability information provided that the firm or a network firm expresses an opinion on the group sustainability information; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
  - (i) That entity's sustainability information is consolidated into group sustainability information prepared by that other public interest entity; and
  - (ii) The firm or a network firm expresses an opinion on that group sustainability information.

**[Paragraph R5410.33 is intentionally left blank]**

## **SECTION 5411**

### **COMPENSATION AND EVALUATION POLICIES**

#### **Introduction**

- 5411.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5411.2 A firm's evaluation or compensation policies might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 5411.3 A1 When a sustainability assurance team member for a particular sustainability assurance client is evaluated on or compensated for selling non-assurance services to that sustainability assurance client, the level of the self-interest threat will depend on:
- (a) What proportion of the compensation or evaluation is based on the sale of such services;
  - (b) The role of the individual on the sustainability assurance team; and
  - (c) Whether the sale of such non-assurance services influences promotion decisions.
- 5411.3 A2 Examples of actions that might eliminate such a self-interest threat include:
- Revising the compensation plan or evaluation process for that individual.
  - Removing that individual from the sustainability assurance team.
- 5411.3 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.
- R5411.4** A firm shall not evaluate or compensate a key sustainability assurance leader based on that leader's success in selling non-assurance services to the leader's sustainability assurance client. This requirement does not preclude normal profit-sharing arrangements between leaders of a firm.

## **SECTION 5420 GIFTS AND HOSPITALITY**

### **Introduction**

- 5420.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5420.2 Accepting gifts and hospitality from a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out a specific requirement and application material relevant to applying the conceptual framework in such circumstances.

### **Requirement and Application Material**

- R5420.3** A firm, network firm or a sustainability assurance team member shall not accept gifts and hospitality from a sustainability assurance client, unless the value is trivial and inconsequential.
- 5420.3 A1 Where a firm, network firm or sustainability assurance team member is offering or accepting an inducement to or from a sustainability assurance client, the requirements and application material set out in Section 5340 apply and non-compliance with these requirements might create threats to independence.
- 5420.3 A2 The requirements set out in Section 5340 relating to offering or accepting inducements do not allow a firm, network firm or sustainability assurance team member to accept gifts and hospitality where the intent is to improperly influence behavior even if the value is trivial and inconsequential.

## **SECTION 5430 ACTUAL OR THREATENED LITIGATION**

### **Introduction**

- 5430.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5430.2 When litigation with a sustainability assurance client occurs, or appears likely, self-interest and intimidation threats are created. This section sets out specific application material relevant to applying the conceptual framework in such circumstances.

### **Application Material**

#### **General**

- 5430.3 A1 The relationship between client management and sustainability assurance team members must be characterized by complete candor and full disclosure regarding all aspects of a client's operations. Adversarial positions might result from actual or threatened litigation between a sustainability assurance client and the firm, a network firm or a sustainability assurance team member. Such adversarial positions might affect management's willingness to make complete disclosures and create self-interest and intimidation threats.
- 5430.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The materiality of the litigation.
  - Whether the litigation relates to a prior sustainability assurance engagement.
- 5430.3 A3 If the litigation involves a sustainability assurance team member, an example of an action that might eliminate such self-interest and intimidation threats is removing that individual from the sustainability assurance team.
- 5430.3 A4 An example of an action that might be a safeguard to address such self-interest and intimidation threats is to have an appropriate reviewer review the work performed.

## **SECTION 5510 FINANCIAL INTERESTS**

### **Introduction**

- 5510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5510.2 Holding a financial interest in a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### **Requirements and Application Material**

#### **General**

- 5510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.
- 5510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in a sustainability assurance client include:
- The role of the individual holding the financial interest.
  - Whether the financial interest is direct or indirect.
  - The materiality of the financial interest.

#### **Financial Interests in a Sustainability Assurance Client Held by the Firm, a Network Firm, Sustainability Assurance Team Members and Others**

- R5510.4** Subject to paragraph R5510.5, a direct financial interest or a material indirect financial interest in the sustainability assurance client shall not be held by:
- (a) The firm or a network firm;
  - (b) A sustainability assurance team member, or any of that individual’s immediate family;
  - (c) Any other leader in the office in which an engagement leader practices in connection with the sustainability assurance engagement, or any of that other leader’s immediate family; or
  - (d) Any other leader or managerial employee who provides services other than sustainability assurance to the sustainability assurance client, except for any whose involvement is minimal, or any of that individual’s immediate family.

5510.4 A1 The office in which the engagement leader practices in connection with a sustainability assurance engagement is not necessarily the office to which that engagement leader is assigned. When the engagement leader is located in a different office from that of the other sustainability assurance team members, professional judgment is needed to determine the office in which the engagement leader practices in connection with the engagement.

**R5510.5** As an exception to paragraph R5510.4, an immediate family member identified in subparagraphs R5510.4(c) or (d) may hold a direct or material indirect financial interest in a sustainability assurance client, provided that:

- (a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and
- (b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

#### **Financial Interests in an Entity Controlling a Sustainability Assurance Client**

**R5510.6** When an entity has a controlling interest in a sustainability assurance client and the client is material to the entity, neither the firm, nor a network firm, nor a sustainability assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

#### **Financial Interests in a Sustainability Assurance Client Held as Trustee**

**R5510.7** Paragraph R5510.4 shall also apply to a financial interest in a sustainability assurance client held in a trust for which the firm, network firm or individual acts as trustee, unless:

- (a) None of the following is a beneficiary of the trust: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm;
- (b) The interest in the sustainability assurance client held by the trust is not material to the trust;
- (c) The trust is not able to exercise significant influence over the sustainability assurance client; and
- (d) None of the following can significantly influence any investment decision involving a financial interest in the sustainability assurance client: the trustee, the sustainability assurance team member or any of that individual's immediate family, the firm or a network firm.

#### **Financial Interests in Common with the Sustainability Assurance Client**

**R5510.8** (a) A firm, or a network firm, or a sustainability assurance team member, or any of that individual's immediate family shall not hold a financial interest in an entity when a sustainability assurance client also has a financial interest in that entity, unless:

- (i) The financial interests are immaterial to the firm, the network firm, the sustainability assurance team member and that individual's immediate family member and the sustainability assurance client, as applicable; or
- (ii) The sustainability assurance client cannot exercise significant influence over the entity.

- (b) Before an individual who has a financial interest described in paragraph R5510.8(a) can become a sustainability assurance team member, the individual or that individual's immediate family member shall either:
- (i) Dispose of the interest; or
  - (ii) Dispose of enough of the interest so that the remaining interest is no longer material.

### **Financial Interests in a Sustainability Assurance Client Received Unintentionally**

- R5510.9** If a firm, a network firm or a leader or employee of the firm or a network firm, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in a sustainability assurance client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:
- (a) If the interest is received by the firm or a network firm, or a sustainability assurance team member or any of that individual's immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
  - (b) (i) If the interest is received by an individual who is not a sustainability assurance team member, or by any of that individual's immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and
  - (ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

### **Financial Interests – Other Circumstances**

#### *Immediate Family*

- 5510.10 A1 A self-interest, familiarity, or intimidation threat might be created if a sustainability assurance team member, or any of that individual's immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the sustainability assurance client is also known to have a financial interest in that entity.
- 5510.10 A2 Factors that are relevant in evaluating the level of such threats include:
- The role of the individual on the sustainability assurance team.
  - Whether ownership of the entity is closely or widely held.
  - Whether the interest allows the investor to control or significantly influence the entity.
  - The materiality of the financial interest.
- 5510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation threat is removing the sustainability assurance team member with the financial interest from the sustainability assurance team.
- 5510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

*Close Family*

- 5510.10 A5 A self-interest threat might be created if a sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the sustainability assurance client.
- 5510.10 A6 Factors that are relevant in evaluating the level of such a threat include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
  - Whether the financial interest is direct or indirect.
  - The materiality of the financial interest to the close family member.
- 5510.10 A7 Examples of actions that might eliminate such a self-interest threat include:
- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
  - Removing the individual from the sustainability assurance team.
- 5510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the sustainability assurance team member.

*Other Individuals*

- 5510.10 A9 A self-interest threat might be created if a sustainability assurance team member knows that a financial interest in the sustainability assurance client is held by individuals such as:
- leaders and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R5510.4, or their immediate family members.
  - Individuals with a close personal relationship with a sustainability assurance team member.
- 5510.10 A10 Factors that are relevant in evaluating the level of such a threat include:
- The firm's organizational, operating and reporting structure.
  - The nature of the relationship between the individual and the sustainability assurance team member.
- 5510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the sustainability assurance team member with the personal relationship from the sustainability assurance team.
- 5510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:
- Excluding the sustainability assurance team member from any significant decision-making concerning the sustainability assurance engagement.
  - Having an appropriate reviewer review the work of the sustainability assurance team member.

*Retirement Benefit Plan of a Firm or Network Firm*

- 5510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in a sustainability assurance client.



## **SECTION 5511**

### **LOANS AND GUARANTEES**

#### **Introduction**

- 5511.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5511.2 A loan or a guarantee of a loan with a sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 5511.3 A1 This section contains references to the “materiality” of a loan or guarantee. In determining whether such a loan or guarantee is material to an individual, the combined net worth of the individual and the individual's immediate family members may be taken into account.

##### **Loans and Guarantees with a Sustainability Assurance Client**

- R5511.4** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not make or guarantee a loan to a sustainability assurance client unless the loan or guarantee is immaterial to:
- (a) The firm, the network firm or the individual making the loan or guarantee, as applicable; and
  - (b) The client.

##### **Loans and Guarantees with a Sustainability Assurance Client that is a Bank or Similar Institution**

- R5511.5** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan, or a guarantee of a loan, from a sustainability assurance client that is a bank or a similar institution unless the loan or guarantee is made under normal lending procedures, terms and conditions.
- 5511.5 A1 Examples of loans include mortgages, bank overdrafts, car loans, and credit card balances.
- 5511.5 A2 Even if a firm or network firm receives a loan from a sustainability assurance client that is a bank or similar institution under normal lending procedures, terms and conditions, the loan might create a self-interest threat if it is material to the sustainability assurance client or firm receiving the loan.
- 5511.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having the work reviewed by an appropriate reviewer, who is not a sustainability assurance team member, from a network firm that is not a beneficiary of the loan.

##### *Deposits or Brokerage Accounts*

- R5511.6** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have deposits or a brokerage account with a sustainability assurance client that is a bank, broker or similar institution, unless the deposit or account is held under normal commercial terms.

**Loans and Guarantees with a Sustainability Assurance Client that is Not a Bank or Similar Institution**

**R5511.7** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not accept a loan from, or have a borrowing guaranteed by, a sustainability assurance client that is not a bank or similar institution, unless the loan or guarantee is immaterial to:

- (a)** The firm, the network firm, or the individual receiving the loan or guarantee, as applicable; and
- (b)** The client.

## **SECTION 5520 BUSINESS RELATIONSHIPS**

### **Introduction**

- 5520.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5520.2 A close business relationship with a sustainability assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

### **Requirements and Application Material**

#### **General**

- 5520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.
- 5520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:
- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.
  - Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.
  - Arrangements under which the firm or a network firm sells, resells, distributes or markets the client’s products or services, or the client sells, resells, distributes or markets the firm’s or a network firm’s products or services.
  - Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.
- 5520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

#### **Firm, Network Firm, Sustainability Assurance Team Member or Immediate Family Business Relationships with a Sustainability Assurance Client**

- R5520.4** A firm, a network firm or a sustainability assurance team member shall not have a close business relationship with a sustainability assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the sustainability assurance team member, as applicable.
- 5520.4 A1 A self-interest or intimidation threat might be created if there is a close business relationship between the sustainability assurance client or its management and the immediate family of a sustainability assurance team member.

### **Common Interests in Closely-Held Entities**

**R5520.5** A firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when a sustainability assurance client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

### **Buying Goods or Services**

5520.6 A1 The purchase of goods and services, including the licensing of technology, from a sustainability assurance client by a firm, a network firm, a sustainability assurance team member, or any of that individual's immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

5520.6 A2 Examples of actions that might eliminate such a self-interest threat include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the sustainability assurance team.

### **Providing, Selling, Reselling or Licensing Technology**

5520.7 A1 Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To a sustainability assurance client; or
- (b) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 5600 apply.

## **SECTION 5521**

### **FAMILY AND PERSONAL RELATIONSHIPS**

#### **Introduction**

- 5521.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5521.2 Family or personal relationships with client personnel might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 5521.3 A1 A self-interest, familiarity or intimidation threat might be created by family and personal relationships between a sustainability assurance team member and a director or officer or, depending on their role, certain employees of the sustainability assurance client.
- 5521.3 A2 Factors that are relevant in evaluating the level of such threats include:
- The individual's responsibilities on the sustainability assurance team.
  - The role of the family member or other individual within the client, and the closeness of the relationship.

##### **Immediate Family of a Sustainability Assurance Team Member**

- 5521.4 A1 A self-interest, familiarity or intimidation threat is created when an immediate family member of a sustainability assurance team member is an employee in a position to exert significant influence over the client's sustainability information on which the firm will express an opinion.
- 5521.4 A2 Factors that are relevant in evaluating the level of such threats include:
- The position held by the immediate family member.
  - The role of the sustainability assurance team member.
- 5521.4 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the immediate family member.
- R5521.5** An individual shall not participate as a sustainability assurance team member when any of that individual's immediate family:
- (a) Is a director or officer of the sustainability assurance client;
  - (b) Is an employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion; or

- (c) Was in such position during any period covered by the engagement or the reporting period for the engagement.

#### **Close Family of a Sustainability Assurance Team Member**

- 5521.6 A1 A self-interest, familiarity or intimidation threat is created when a close family member of a sustainability assurance team member is:
- (a) A director or officer of the sustainability assurance client; or
  - (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.
- 5521.6 A2 Factors that are relevant in evaluating the level of such threats include:
- The nature of the relationship between the sustainability assurance team member and the close family member.
  - The position held by the close family member.
  - The role of the sustainability assurance team member.
- 5521.6 A3 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.
- 5521.6 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the close family member.

#### **Other Close Relationships of a Sustainability Assurance Team Member**

- R5521.7** A sustainability assurance team member shall consult in accordance with firm policies and procedures if the sustainability assurance team member has a close relationship with an individual who is not an immediate or close family member, but who is:
- (a) A director or officer of the sustainability assurance client; or
  - (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.
- 5521.7 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:
- The nature of the relationship between the individual and the sustainability assurance team member.
  - The position the individual holds with the client.
  - The role of the sustainability assurance team member.
- 5521.7 A2 An example of an action that might eliminate such a self-interest, familiarity or intimidation threat is removing the individual from the sustainability assurance team.

5521.7 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is structuring the responsibilities of the sustainability assurance team so that the sustainability assurance team member does not deal with matters that are within the responsibility of the individual with whom the sustainability assurance team member has a close relationship.

### **Relationships of Leaders and Employees of the Firm**

**R5521.8** Leaders and employees of the firm shall consult in accordance with firm policies and procedures if they are aware of a personal or family relationship between:

- (a) A leader or employee of the firm or network firm who is not a sustainability assurance team member; and
- (b) A director or officer of the sustainability assurance client or an employee of the sustainability assurance client in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.

5521.8 A1 Factors that are relevant in evaluating the level of a self-interest, familiarity or intimidation threat created by such a relationship include:

- The nature of the relationship between the leader or employee of the firm and the director or officer or employee of the client.
- The degree of interaction of the leader or employee of the firm with the sustainability assurance team.
- The position of the leader or employee within the firm.
- The position the individual holds with the client.

5521.8 A2 Examples of actions that might be safeguards to address such self-interest, familiarity or intimidation threats include:

- Structuring the leader's or employee's responsibilities to reduce any potential influence over the sustainability assurance engagement.
- Having an appropriate reviewer review the relevant sustainability assurance work performed.

## **SECTION 5522**

### **RECENT SERVICE WITH A SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 5522.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5522.2 If a sustainability assurance team member has recently served as a director or officer, or employee of the sustainability assurance client, a self-interest, self-review or familiarity threat might be created. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **Service During Period Covered by the Sustainability Assurance Report**

- R5522.3** The sustainability assurance team shall not include an individual who, during the period covered by the sustainability assurance report:
- (a) Had served as a director or officer of the sustainability assurance client; or
  - (b) Was an employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.

##### **Service Prior to Period Covered by the Sustainability Assurance Report**

- 5522.4 A1 A self-interest, self-review or familiarity threat might be created if, before the period covered by the sustainability assurance report, a sustainability assurance team member:
- (a) Had served as a director or officer of the sustainability assurance client; or
  - (b) Was an employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.

For example, a threat would be created if a decision made or work performed by the individual in the prior period, while employed by the client, is to be evaluated in the current period as part of the current sustainability assurance engagement.

- 5522.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the sustainability assurance team member.

- 5522.4 A3 An example of an action that might be a safeguard to address such a self-interest, self-review or familiarity threat is having an appropriate reviewer review the work performed by the sustainability assurance team member.



## SECTION 5523

### SERVING AS A DIRECTOR OR OFFICER OF A SUSTAINABILITY ASSURANCE CLIENT

#### Introduction

5523.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5523.2 Serving as a director or officer of a sustainability assurance client creates self-review and self-interest threats. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### Service as Director or Officer

**R5523.3** A leader or employee of the firm or a network firm shall not serve as a director or officer of a sustainability assurance client of the firm.

##### Service as Company Secretary

**R5523.4** A leader or employee of the firm or a network firm shall not serve as Company Secretary for a sustainability assurance client of the firm, unless:

- (a) This practice is specifically permitted under local law, professional rules or practice;
- (b) Management makes all relevant decisions; and
- (c) The duties and activities performed are limited to those of a routine and administrative nature, such as preparing minutes and maintaining statutory returns.

5523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as personnel management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a leader or employee of the firm or a network firm serves as Company Secretary for a sustainability assurance client. (More information on providing non-assurance services to a sustainability assurance client is set out in Section 5600, *Provision of Non-assurance Services to a Sustainability Assurance Client*.)

## **SECTION 5524**

### **EMPLOYMENT WITH A SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

5524.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5524.2 Employment relationships with a sustainability assurance client might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **All Sustainability Assurance Clients**

5524.3 A1 A familiarity or intimidation threat might be created if any of the following individuals have been a sustainability assurance team member or leader of the firm or a network firm:

- A director or officer of the sustainability assurance client.
- An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.

##### *Former Leader or Sustainability Assurance Team Member Restrictions*

**R5524.4** The firm shall ensure that no significant connection remains between the firm or a network firm and:

- (a)** A former leader who has joined a sustainability assurance client of the firm; or
- (b)** A former sustainability assurance team member who has joined the sustainability assurance client, if either has joined the sustainability assurance client as:
  - (i)** A director or officer; or
  - (ii)** An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.

A significant connection remains between the firm or a network firm and the individual, unless:

- (a)** The individual is not entitled to any benefits or payments from the firm or network firm that are not made in accordance with fixed pre-determined arrangements;
- (b)** Any amount owed to the individual is not material to the firm or the network firm; and
- (c)** The individual does not continue to participate or appear to participate in the firm's or the network firm's business or professional activities.

5524.4 A1 Even if the requirements of paragraph R5524.4 are met, a familiarity or intimidation threat might still be created.

5524.4 A2 A familiarity or intimidation threat might also be created if a former leader of the firm or network firm has joined an entity in one of the positions described in paragraph 5524.3 A1 and the entity subsequently becomes a sustainability assurance client of the firm.

- 5524.4 A3 Factors that are relevant in evaluating the level of such threats include:
- The position the individual has taken at the client.
  - Any involvement the individual will have with the sustainability assurance team.
  - The length of time since the individual was a sustainability assurance team member or leader of the firm or network firm.
  - The former position of the individual within the sustainability assurance team, firm or network firm. An example is whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

- 5524.4 A4 Examples of actions that might be safeguards to address such familiarity or intimidation threats include:
- Modifying the plan for the sustainability assurance engagement.
  - Assigning to the sustainability assurance team individuals who have sufficient experience relative to the individual who has joined the client.
  - Having an appropriate reviewer review the work of the former sustainability assurance team member.

*Sustainability Assurance Team Members Entering Employment with a Client*

**R5524.5** A firm or network firm shall have policies and procedures that require sustainability assurance team members to notify the firm or network firm when entering employment negotiations with a sustainability assurance client.

5524.5 A1 A self-interest threat is created when a sustainability assurance team member participates in the sustainability assurance engagement while knowing that the sustainability assurance team member will, or might, join the client at some time in the future.

5524.5 A2 An example of an action that might eliminate such a self-interest threat is removing the individual from the sustainability assurance team.

5524.5 A3 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review any significant judgments made by that individual while on the team.

*Sustainability Assurance Clients that are Public Interest Entities*

Key Sustainability Assurance Leaders

**R5524.6** Subject to paragraph R5524.8, if an individual who was a key sustainability assurance leader with respect to a sustainability assurance client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion,

independence is compromised unless, subsequent to the individual ceasing to be a key sustainability assurance leader:

- (i) The sustainability assurance client has issued assured sustainability information covering a period of not less than twelve months; and
- (ii) The individual was not a sustainability assurance team member with respect to the assurance of that sustainability information.

Chief Executive or Equivalent of the Firm

**R5524.7** Subject to paragraph R5524.8, if an individual who was the Chief Executive or equivalent of the firm joins a sustainability assurance client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion,

independence is compromised, unless twelve months have passed since the individual was the Chief Executive or equivalent of the firm.

Business Combinations

**R5524.8** As an exception to paragraphs R5524.6 and R5524.7, independence is not compromised if the circumstances set out in those paragraphs arise as a result of a business combination and:

- (a) The position was not taken in contemplation of the business combination;
- (b) Any benefits or payments due to the former key sustainability assurance leader or Chief Executive from the firm or a network firm have been settled in full, unless made in accordance with fixed pre-determined arrangements and any amount owed to the key sustainability assurance leader or Chief Executive is not material to the firm or network firm as applicable;
- (c) The former key sustainability assurance leader or Chief Executive does not continue to participate or appear to participate in the firm's or network firm's business or professional activities; and
- (d) The firm discusses the former key sustainability assurance leader's or Chief Executive's position held with the sustainability assurance client with those charged with governance.

## **SECTION 5525**

### **TEMPORARY PERSONNEL ASSIGNMENTS**

#### **Introduction**

5525.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.

5525.2 The loan of personnel to a sustainability assurance client might create a self-review, advocacy or familiarity threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

5525.3 A1 Examples of actions that might be safeguards to address threats created by the loan of personnel by a firm or a network firm to a sustainability assurance client include:

- Conducting an additional review of the work performed by the loaned personnel might address a self-review threat.
- Not including the loaned personnel as a sustainability assurance team member might address a familiarity or advocacy threat.
- Not giving the loaned personnel sustainability assurance responsibility for any function or activity that the personnel performed during the loaned personnel assignment might address a self-review threat.

5525.3 A2 When familiarity and advocacy threats are created by the loan of personnel by a firm or a network firm to a sustainability assurance client, such that the firm or the network firm becomes too closely aligned with the views and interests of management, safeguards are often not available.

**R5525.4** A firm or network firm shall not loan personnel to a sustainability assurance client unless the firm or network firm is satisfied that:

- (a)** Such assistance is provided only for a short period of time;
- (b)** Such personnel will not assume management responsibilities and the sustainability assurance client will be responsible for directing and supervising the activities of the personnel;
- (c)** Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
- (d)** Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

## **SECTION 5540**

### **LONG ASSOCIATION OF PERSONNEL (INCLUDING LEADER ROTATION) WITH A SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 5540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5540.2 When an individual is involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

**[Paragraph 5540.3 A1 is intentionally left blank]**

##### **All Sustainability Assurance Clients**

- 5540.4 A1 Although an understanding of a sustainability assurance client and its environment is fundamental to assurance quality, a familiarity threat might be created as a result of an individual's long association as a sustainability assurance team member or audit team member with:
- (a) The sustainability assurance client and its operations;
  - (b) The sustainability assurance client's senior management; or
  - (c) The sustainability information on which the firm will express an opinion or the financial or non-financial information which forms the basis of the sustainability information.
- 5540.4 A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 5540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
    - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.
    - How long the individual has been an engagement team member for the sustainability assurance engagement or the audit engagement, and the nature of the roles performed.
    - The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
    - The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the sustainability assurance engagement, for example, by making key decisions or directing the work of other engagement team members.

- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the sustainability assurance client:

- The nature or complexity of the client's sustainability reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

5540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

5540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in a sustainability assurance engagement, or a combination of sustainability assurance and audit engagements for the same client, over a long period of time would be rotating the individual off the sustainability assurance team.

5540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the sustainability assurance team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not a sustainability assurance team member review the work of the individual.
- Performing regular independent internal, or external, quality reviews of the engagement.

**R5540.5** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the sustainability assurance team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.22 also apply.

**R5540.6** Where an individual is a member of both the sustainability assurance team and the audit team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the sustainability assurance team and the audit team, the firm shall, in addition to complying with paragraph R5540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the audit engagement; or
- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R5540.7 to R5540.22 also apply.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5540.7** Subject to paragraphs R5540.9 to R5540.11, in respect of a sustainability assurance engagement of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement leader;
- (b) The individual appointed as responsible for performing the engagement quality review;
- (c) Any other key sustainability assurance leader role; or
- (d) A key audit partner.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R5540.13 to R5540.21.

**R5540.8** In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R5540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R5540.13 to R5540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

5540.8 A1 For example:

- An individual who served as engagement leader for four years followed by three years off can only act thereafter as a key sustainability assurance leader on the same sustainability assurance engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R5540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client’s financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R5540.18.

**R5540.9** As an exception to paragraph R5540.7, key sustainability assurance leaders whose continuity is especially important to assurance quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key sustainability assurance leader as long as the threat to independence can be eliminated or reduced to an acceptable level.



5540.9 A1 For example, a key sustainability assurance leader may remain in that role on the sustainability assurance team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement leader. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

**R5540.10** If a sustainability assurance client becomes a public interest entity, a firm shall take into account the length of time an individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key sustainability assurance leader before rotating off the sustainability assurance engagement is seven years less the number of years already served. As an exception to paragraph R5540.7, if the individual has served the sustainability assurance client as a key sustainability assurance leader or key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key sustainability assurance leader with the concurrence of those charged with governance for a maximum of two additional years before rotating off the sustainability assurance engagement.

**R5540.11** When a firm has only a few people with the necessary knowledge and experience to serve as a key sustainability assurance leader on the sustainability assurance engagement of a public interest entity, rotation of key sustainability assurance leaders might not be possible. As an exception to paragraph R5540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from leader rotation in such circumstances, an individual may remain a key sustainability assurance leader for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key sustainability assurance leader may be exempted from rotation or a regular independent external review.

#### Other Considerations Relating to the Time-on Period

**R5540.12** In evaluating the threats created by an individual's long association with a sustainability assurance engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the sustainability assurance engagement or the audit engagement for the same client prior to the individual becoming a key sustainability assurance leader.

5540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key sustainability assurance leader to continue in that role even though the length of time served as a key sustainability assurance leader is less than seven years.

#### Cooling-off Period

**R5540.13** If the individual acted as the engagement leader for seven cumulative years, the cooling-off period shall be five consecutive years.

**R5540.14** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

**R5540.15** If the individual has acted as a key sustainability assurance leader other than in the capacities set out in paragraphs R5540.13 and R5540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.

5540.16 A1 The leader rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement leader can assume the role of engagement quality reviewer (see paragraph 5325.8 A4).

Service in a combination of key sustainability assurance leader or key audit partner roles

**R5540.17** If the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the engagement leader or engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

**R5540.18** Subject to paragraph R5540.19(a), if the individual acted in a combination of key sustainability assurance leader or key audit partner roles and served as the key sustainability assurance leader or key audit partner responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

**R5540.19** If an individual has acted in a combination of engagement leader, engagement partner and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R5540.18, be five consecutive years where the individual has been the engagement leader or engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R5540.20** If the individual acted in any combination of key sustainability assurance leader and key audit partner roles other than those addressed in paragraphs R5540.17 to R5540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

**R5540.21** In determining the number of years that an individual has been a key sustainability assurance leader or a key audit partner as set out in paragraph R5540.7, the length of the relationship shall, where relevant, include time while the individual was a key sustainability assurance leader on the sustainability assurance engagement or a key audit partner on the audit engagement for the same client at a prior firm.

**[Paragraph R5540.22 is intentionally left blank]**

Restrictions on Activities During the Cooling-off Period

**R5540.23** For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement or the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the sustainability assurance engagement or the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the sustainability assurance engagement or the audit engagement);

- (c)** Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the sustainability assurance client, or overseeing the relationship of the firm or a network firm with the sustainability assurance client; or
- (d)** Undertake any other role or activity not referred to above with respect to the sustainability assurance client, including the provision of non-assurance services, that would result in the individual:

  - (i)** Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii)** Exerting direct influence on the outcome of the sustainability assurance engagement or the audit engagement.

5540.23 A1 The provisions of paragraph R5540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Chief Executive or equivalent.

## **SECTION 5600**

### **PROVISION OF NON-ASSURANCE SERVICES TO A SUSTAINABILITY ASSURANCE CLIENT**

#### **Introduction**

- 5600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5600.2 Firms and network firms might provide a range of non-assurance services to their sustainability assurance clients, consistent with their skills and expertise. Providing non-assurance services to sustainability assurance clients might create threats to compliance with the fundamental principles and threats to independence.
- 5600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to sustainability assurance clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to sustainability assurance clients and indicate the types of threats that might be created as a result.
- 5600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to a sustainability assurance client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.
- 5600.5 New business practices, the developing sustainability landscape, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to a sustainability assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.
- 5600.6 The requirements and application material in this section apply where a firm or a network firm:
- (a) Uses technology to provide a non-assurance service to a sustainability assurance client; or
  - (b) Provides, sells, resells or licenses technology resulting in the provision of a non- assurance service by the firm or a network firm:
    - (i) To a sustainability assurance client; or
    - (ii) To an entity that provides services using such technology to sustainability assurance clients of the firm or network firm.

#### **Requirements and Application Material**

##### **General**

##### *Non-Assurance Services Provisions in Laws or Regulations*

- 5600.7 A1 Paragraphs R5100.6 to 5100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to sustainability assurance clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be

aware of those differences and comply with the more stringent provisions.

*Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service*

5600.8 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R5400.21 have been complied with.

*Accepting an Engagement to Provide a Non-Assurance Service*

**R5600.9** Before a firm or a network firm accepts an engagement to provide a non-assurance service to a sustainability assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

*Identifying and Evaluating Threats*

All Sustainability Assurance Clients

5600.10 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to a sustainability assurance client is set out in paragraph 5120.6 A3.

5600.10 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to a sustainability assurance client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The client's dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R5400.20 to R5400.21).
- Whether the outcome of the service will affect the records underlying the sustainability information or matters reflected in the sustainability information on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the sustainability information.
  - The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:

- Records underlying the sustainability information or the sustainability information on which the firm will express an opinion.
- Internal controls over sustainability reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the sustainability assurance engagement.
- The fee relating to the provision of the non-assurance service.

5600.10 A3 Subsections 5601 to 5610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

#### Materiality in relation to sustainability information

5600.11 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to a sustainability assurance client. Subsections 5601 to 5610 refer to materiality in relation to a sustainability assurance client's sustainability information on which the firm will express an opinion. The concept of materiality in relation to sustainability assurance engagement is addressed in the relevant reporting and assurance frameworks. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the sustainability information needs of users. The applicable reporting and assurance frameworks might include principles or guidance to assist the sustainability assurance client in identifying information that might be material to users.

5600.11 A2 Where the Code expressly prohibits the provision of a non-assurance service to a sustainability assurance client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the sustainability information on which the firm will express an opinion.

#### Providing advice and recommendations

5600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.15. Where the sustainability assurance client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the sustainability assurance client is a public interest entity, paragraphs R5600.17 and R5600.18 apply.

#### Multiple non-assurance services provided to the same sustainability assurance client

**R5600.13** When a firm or a network firm provides multiple non-assurance services to a sustainability assurance client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

5600.13 A1 In addition to paragraph 5600.10 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to a sustainability assurance client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the sustainability assurance client.

5600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

#### Self-review threats

5600.14 A1 When a firm or a network firm provides a non-assurance service to a sustainability assurance client, there might be a risk of the firm carrying out assurance procedures on its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the sustainability assurance team will rely when forming a judgment as part of a sustainability assurance engagement.

**R5600.15** Before providing a non-assurance service to a sustainability assurance client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a) The results of the service will form part of or affect the records underlying the sustainability information, the internal controls over sustainability reporting, or the sustainability information on which the firm will express an opinion; and
- (b) In the course of performing assurance work on the sustainability information on which the firm will express an opinion, the sustainability assurance team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

#### Sustainability Assurance Clients that are Public Interest Entities

5600.16 A1 When the sustainability assurance client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to a sustainability assurance client that is a public interest entity.

5600.16 A2 Where the provision of a non-assurance service to a sustainability assurance client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

#### Self-review threats

**R5600.17** A firm or a network firm shall not provide a non-assurance service to a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat in relation to the assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 5600.14 A1 and R5600.15).

#### Providing advice and recommendations

**R5600.18** As an exception to paragraph R5600.17, a firm or a network firm may provide advice and recommendations to a sustainability assurance client that is a public interest entity in relation to information or matters arising in the course of a sustainability assurance engagement provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R5400.20 and R5400.21); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

5600.18 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of a sustainability assurance engagement include:

- Advising on sustainability reporting standards or policies and sustainability information disclosure requirements.
- Advising on the appropriateness of controls related to sustainability information and the methods used in determining or establishing the sustainability information to be reported.
- Proposing an adjustment to sustainability information arising from the sustainability assurance engagement findings.
- Discussing findings on internal controls over sustainability reporting and processes and recommending improvements.
- Advising on compliance with group sustainability reporting policies.

*Addressing Threats*

All Sustainability Assurance Clients

5600.19 A1 Paragraphs R5120.10 to 5120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

5600.19 A2 Threats to independence created by providing a non-assurance service or multiple services to a sustainability assurance client vary depending on the facts and circumstances of the sustainability assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

5600.19 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

5600.19 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to a sustainability assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the sustainability assurance engagement.

*Communication with Those Charged With Governance Regarding Non-Assurance Services*

All Sustainability Assurance Clients

5600.20 A1 Paragraphs 5400.40 A1 and 5400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.



Sustainability Assurance Clients that are Public Interest Entities

5600.21 A1 Paragraphs R5600.22 to R5600.24 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that assures the sustainability information of that public interest entity.

5600.21 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R5600.22 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

**R5600.22** Before a firm that undertakes assurance work on the sustainability information of a public interest entity or a network firm accepts an engagement to provide a non-assurance service to:

- (A)** That public interest entity;
- (B)** Any entity that controls, directly or indirectly, that public interest entity; or
- (C)** Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a)** Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
  - (i)** Is not prohibited; and
  - (ii)** Will not create a threat to the firm's independence as sustainability assurance practitioner of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b)** Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the

firm's independence.

5600.22 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

**R5600.23** A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R5600.22 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence in providing the sustainability assurance service to the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
- (b) The provision of that service.

**R5600.24** As an exception to paragraphs R5600.22 and R5600.23, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

- (a) The firm provides such information as it is able without breaching its legal or professional obligations;
- (b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (c) Those charged with governance do not disagree with the firm's conclusion in (b).

**R5600.25** The firm or the network firm, having taken into account any matters raised by those charged with governance of the sustainability assurance client that is a public interest entity or by the entity referred to in paragraph R5600.22 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the sustainability assurance engagement if:

- (a) The firm or the network firm is not permitted to provide any information to those charged with governance of the sustainability assurance client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or
- (b) Those charged with governance of a sustainability assurance client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat to the firm's independence from the client or that any identified threat is at an acceptable level

or, if not, will be eliminated or reduced to an acceptable level.

*Sustainability Assurance Client that Later Becomes a Public Interest Entity*

**R5600.26** A non-assurance service provided, either currently or previously, by a firm or a network firm to a sustainability assurance client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to sustainability assurance clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for sustainability assurance clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

5600.26 A1 Examples of actions that the firm might recommend to the sustainability assurance client include engaging another firm to:

- Review or re-perform the affected sustainability assurance work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

*Considerations for Certain Related Entities*

**R5600.27** This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R5400.20, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose sustainability information the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the sustainability information of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose sustainability information the firm will express an opinion;
- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

### *Documentation*

- 5600.28 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R5400.60 and 5400.60 A1 might include:
- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the sustainability information on which the firm will express an opinion.
  - The nature of any threat to independence that is created by providing the service to the sustainability assurance client, including whether the results of the service will be subject to sustainability assurance procedures.
  - The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
  - Any safeguards that are applied, or other actions taken to address a threat to independence.
  - The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
  - In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R5600.22, the steps taken to comply with paragraphs R5600.22 to R5600.24.

## **SUBSECTION 5601 – SUSTAINABILITY DATA AND INFORMATION SERVICES**

### **Introduction**

- 5601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing sustainability data and information services for the preparation or maintenance of sustainability data, records or information to a sustainability assurance client.

### **Requirements and Application Material**

#### **General**

- 5601.2 A1 Management is responsible for the preparation and presentation of the sustainability information in accordance with the applicable sustainability reporting framework. These responsibilities include:
- Determining sustainability reporting policies and the reporting treatment in accordance with those policies.
  - Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction, event or other matter included in the sustainability information.:
  - Originating or changing sustainability data entries or records.
  - Determining or approving sustainability information classifications.

#### **Description of Service**

- 5601.3 A1 Sustainability data and information services comprise a broad range of services including:
- Preparing sustainability data records or sustainability information that is reported.
  - Recording data, events or other matters included in the sustainability information.

- Resolving sustainability information inaccuracies.
- Converting existing sustainability information from one sustainability reporting framework to another.
- Accounting and bookkeeping services that might affect the sustainability information on which the firm expresses an opinion.

### **Potential Threats Arising from the Provision of Sustainability Data and Information Services**

#### *All Sustainability Assurance Clients*

5601.4 A1 Providing sustainability data and information services to a sustainability assurance client creates a self-review threat when there is a risk that the results of the services will affect the sustainability data or information records or the sustainability information on which the firm will express an opinion.

#### *Sustainability Assurance Clients that are Not Public Interest Entities*

**R5601.5** A firm or a network firm shall not provide to a sustainability assurance client that is not a public interest entity sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

5601.5 A1 Sustainability data and information services that are routine or mechanical:

- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
- (b) Require little or no professional judgment.

5601.5 A2 Sustainability data and information services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include the activities performed by, and the output of, the technology, and whether the technology provides an automated service that is based on or requires the expertise or judgment of the firm or network firm.

5601.5 A3 Examples of services, whether manual or automated, that might be regarded as routine or mechanical include:

- Preparing calculations or reports based on client or third party-originated data for approval by the client.
- Recording recurring data which are easily determinable from source documents, where the client has determined or approved the appropriate classification.
- Posting data coded by the client or received from third parties to the sustainability information records.
- Preparing sustainability information to be reported based on information in the client-approved records and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to sustainability assurance clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R5400.21 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R5601.5(b).

5601.5 A4 Examples of actions that might be safeguards to address a self-review threat created when providing sustainability data and information services of a routine or mechanical nature to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5601.6** A firm or a network firm shall not provide sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity.

[Paragraph R5601.7 is intentionally left blank]

## **SUBSECTION 5602 – ADMINISTRATIVE SERVICES**

### **Introduction**

5602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing administrative services.

### **Application Material**

#### **Description of Service**

5602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

5602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising a sustainability assurance client of those dates.

#### **Potential Threats Arising from the Provision of Administrative Services**

*All Sustainability Assurance Clients*

5602.3 A1 Providing administrative services to a sustainability assurance client does not usually create a threat when such services are clerical in nature and require little to no professional judgment.

## **SUBSECTION 5603 – VALUATION, FORECASTING AND SIMILAR SERVICES**

### **Introduction**

5603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing valuation, forecasting or similar services to a sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

5603.2 A1 A valuation, forecasting or similar service includes the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity. For such services, the values might be non-monetary, for example, forecasting estimates of materials reserves or the amounts of hazardous substances produced by a manufacturing process.

5603.2 A2 If a firm or a network firm is requested to perform a valuation, forecasting or similar service to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes and the results of the service have no effect on the records underlying the sustainability information or the sustainability information on which the firm will express an opinion other than through entries related to tax, the requirements and application material set out in paragraphs 5604.17 A1 to 5604.19 A1, relating to such services, apply.

#### **Potential Threats Arising from the Provision of Valuation, Forecasting or Similar Services**

##### *All Sustainability Assurance Clients*

5603.3 A1 Providing a valuation, forecasting or similar service to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such a service might also create an advocacy threat.

5603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation, forecasting or similar services to a sustainability assurance client, and evaluating the level of such threats include:

- The use and purpose of the results of the service or its inclusion in a report.
- Whether the results of the service will be made public.
- The extent to which the service methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the service methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for the service involving standard or established methodologies.
- Whether the service will have a material effect on the sustainability information.
- The extent of the disclosures related to the item covered by the service in the sustainability information.

- The volatility of the values involved as a result of dependence on future events.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5603.5 applies.

#### *Sustainability Assurance Clients that are Not Public Interest Entities*

5603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation, forecasting or similar service to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

**R5603.4** A firm or a network firm shall not provide a valuation, forecasting or similar service to a sustainability assurance client that is not a public interest entity if:

- (a)** The service involves a significant degree of subjectivity; and
- (b)** The service will have a material effect on the sustainability information on which the firm will express an opinion.

5603.4 A1 Certain valuations, forecasts and similar information do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation, forecasting or similar service performed by two or more parties are not likely to be materially different.

#### *Sustainability Assurance Clients that are Public Interest Entities*

##### Self-review Threats

**R5603.5** A firm or a network firm shall not provide a valuation, forecasting or similar service to a sustainability assurance client that is a public interest entity if the provision of the service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

##### Advocacy Threats

5603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation, forecasting or similar service to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

## **SUBSECTION 5604 – TAX SERVICES**

### **Introduction**

5604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a tax service to a sustainability assurance client.



## Requirements and Application Material

### Description of Service

5604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory services.
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

5604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.

### Potential Threats Arising from the Provision of Tax Services

5604.3 A1 Providing tax services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

5604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to a sustainability assurance client, and evaluating the level of such threats include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

#### *All Sustainability Assurance Clients*

**R5604.4** A firm or a network firm shall not provide a tax service or recommend a transaction to a sustainability assurance client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

5604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R5604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

## **A. Tax Return Preparation**

### **Description of Service**

5604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the sustainability assurance client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

### **Potential Threats Arising from the Provision of Tax Return Preparation Services**

*All Sustainability Assurance Clients*

5604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

## **B. Tax Calculations for the Purpose of Preparing Accounting Entries or Sustainability Information**

### **Description of Service**

5604.7 A1 Tax calculation services involves the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the sustainability assurance client. In some cases those services might also affect the sustainability information of the client.

### **Potential Threats Arising from the Provision of Tax Calculation Services**

*All Sustainability Assurance Clients*

5604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client for the purpose of preparing accounting entries that support such balances creates a self-review threat where the results of those calculations affect the sustainability information on which the firm expresses an opinion.

*Sustainability Assurance Clients that are Not Public Interest Entities*

5604.9 A1 In addition to the factors in paragraph 5604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for an sustainability assurance client is whether the calculation might have a material effect on the sustainability information on which the firm will express an opinion.

5604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the sustainability assurance client is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5604.10** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for a sustainability assurance client that is a public interest entity if the results of the services will affect the sustainability information on which the firm will express an opinion. (Ref: Para. R5600.15 and R5600.17).

## **C. Tax Advisory and Tax Planning Services**

### **Description of Service**

5604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the sustainability assurance client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

### **Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services**

*All Sustainability Assurance Clients*

5604.12 A1 Providing tax advisory and tax planning services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

5604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

- (a) Are supported by a tax authority or other precedent;
- (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
- (c) Have a basis in tax law that the firm is confident is likely to prevail.

5604.12 A3 In addition to paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to sustainability assurance clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the sustainability information on which the firm will express an opinion.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the sustainability information on which the firm will express an opinion.
- The extent to which the outcome of the tax advice might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.15 applies.

## When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

**R5604.13** A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client when:

- (a) The effectiveness of the tax advice depends on a particular treatment or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related treatment or presentation under the relevant sustainability reporting framework.

### *Sustainability Assurance Clients that are Not Public Interest Entities*

5604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

### *Sustainability Assurance Clients that are Public Interest Entities*

#### Self-review Threats

**R5604.15** A firm or a network firm shall not provide tax advisory and tax planning services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.12 A2).

#### Advocacy Threats

5604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

## **D. Tax Services Involving Valuations**

### **Description of Service**

5604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

## Potential Threats Arising from the Provision of Tax Services Involving Valuations

### *All Sustainability Assurance Clients*

- 5604.17 A1 Providing a valuation for tax purposes to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such a service might also create an advocacy threat.
- 5604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist a sustainability assurance client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:
- (a) Have no effect on the records underlying the sustainability information or the sustainability information on which the firm will express an opinion other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
  - (b) Affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 5603 relating to valuation services apply.
- 5604.17 A3 Performing a valuation for tax purposes for a sustainability assurance client will not create a self-review threat if:
- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
  - (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

### *Sustainability Assurance Clients that are Not Public Interest Entities*

- 5604.18 A1 A firm or a network firm might perform a valuation for tax purposes for a sustainability assurance client that is not a public interest entity where the result of the valuation only affects the records underlying the sustainability information or the sustainability information on which the firm will express an opinion through adjustments related to tax. This would not usually create threats if the effect on the sustainability information is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.
- 5604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the sustainability information on which the firm expresses an opinion, in addition to paragraph 5604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to a sustainability assurance client that is not a public interest entity, and evaluating the level of such threats:
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
  - The degree of subjectivity inherent in the valuation.
  - The reliability and extent of the underlying data.
- 5604.18 A3 Examples of actions that might be safeguards to address such threats for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

#### *Sustainability Assurance Clients that are Public Interest Entities*

##### Self-review Threats

**R5604.19** A firm or a network firm shall not perform a valuation for tax purposes for a sustainability assurance client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R5600.15, R5600.17, 5604.17 A3).

##### Advocacy Threats

5604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for a sustainability assurance client that is a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

## **E. Assistance in the Resolution of Tax Disputes**

### **Description of Service**

5604.20 A1 A non-assurance service to provide assistance to a sustainability assurance client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

### **Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes**

#### *All Sustainability Assurance Clients*

5604.21 A1 Providing assistance in the resolution of a tax dispute to a sustainability assurance client might create a self-review threat when there is a risk that the results of the service will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such a service might also create an advocacy threat.

5604.22 A1 In addition to those identified in paragraph 5604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting a sustainability assurance client in the resolution of tax disputes, and evaluating the level of such threats include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the sustainability information on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.

- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5604.24 applies.

*Sustainability Assurance Clients that are Not Public Interest Entities*

5604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting a sustainability assurance client that is not a public interest entity in the resolution of tax disputes include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

*Sustainability Assurance Clients that are Public Interest Entities*

Self-review Threats

**R5604.24** A firm or a network firm shall not provide assistance in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

**Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court**

*Sustainability Assurance Clients that are Not Public Interest Entities*

**R5604.25** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the sustainability assurance client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the sustainability information on which the firm will express an opinion.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5604.26** A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to a sustainability assurance client that is a public interest entity if the services involve acting as an advocate for the sustainability assurance client before a tribunal or court.

5604.27 A1 Paragraphs R5604.25 and R5604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

5604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

## **SUBSECTION 5605 – INTERNAL AUDIT SERVICES**

### **Introduction**

5605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an internal audit service to a sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

5605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the sustainability assurance client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information relevant to sustainability by:
  - Reviewing the means used to identify, measure, classify and report that financial and operating information.
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities relevant to sustainability including non-financial activities of an entity.
- Reviewing compliance with:
  - Laws, regulations and other external requirements.
  - Management policies, directives and other internal requirements.

5605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. They might involve matters that are operational in nature that will be subject to consideration in relation to the assurance of sustainability information.

#### **Risk of Assuming Management Responsibility When Providing an Internal Audit Service**

**R5605.3** Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to a sustainability assurance client, the firm shall be satisfied that:

- (a)** The client designates an appropriate and competent resource, who reports to those charged with governance to:



- (i) Be responsible at all times for internal audit activities; and
- (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

5605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

5605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

### **Potential Threats Arising from the Provision of Internal Audit Services**

#### *All Sustainability Assurance Clients*

5605.4 A1 Providing internal audit services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services impact the assurance of the sustainability information on which the firm will express an opinion.

5605.4 A2 When a firm uses the work of an internal audit function in a sustainability assurance engagement, the applicable assurance standards ordinarily require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to a sustainability assurance client, the results of those services might be used in conducting the external assurance of sustainability information. This might create a self-review threat because it is possible that the engagement team will use the results of the internal audit service for purposes of the sustainability assurance engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

5605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to a sustainability assurance client, and evaluating the level of such a threat include:

- The materiality of the related sustainability information.
- The risk of misstatement of the assertions related to that sustainability information.
- The degree of reliance that the engagement team will place on the work of the internal audit service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5605.6 applies.

*Sustainability Assurance Clients that are Not Public Interest Entities*

5605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5605.6** A firm or a network firm shall not provide internal audit services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5605.6 A1 Examples of the services that are prohibited under paragraph R5605.6 include internal audit services that relate to:

- The internal controls over sustainability reporting.
- Sustainability information systems that generate information for the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.
- Amounts or disclosures that relate to the sustainability information on which the firm will express an opinion.

## **SUBSECTION 5606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES**

### **Introduction**

5606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to a sustainability assurance client.

## Requirements and Application Material

### Description of Service

5606.2 A1 IT systems services comprise a broad range of services including:

- Designing or developing hardware or software IT systems.
- Implementing IT systems, including installation, configuration, interfacing, or customization.
- Operating, maintaining, monitoring, updating or upgrading IT systems.
- Collecting or storing data or managing (directly or indirectly) the hosting of data.

5606.2 A2 The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over sustainability reporting; or
- (c) Generate information that affects the sustainability information records or sustainability information reported, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the sustainability assurance client's records underlying the sustainability information or the internal control over sustainability reporting.

### Risk of Assuming Management Responsibility When Providing an IT Systems Service

**R5606.3** Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to a sustainability assurance client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client, through a competent individual (or individuals), preferably within senior management, makes all management decisions that are the proper responsibility of management with respect to the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT systems;
- (c) The client evaluates the adequacy and results of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the IT system; and
- (d) The client is responsible for operating the IT system and for the data it generates and uses.

5606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- Stores data or manages (directly or indirectly) the hosting of data on behalf of the sustainability assurance client. Such services include:
  - Acting as the only access to a financial or non-financial information system of the sustainability assurance client.
  - Taking custody of or storing the sustainability assurance client's data or records such that the sustainability assurance client's data or records are otherwise incomplete.

- Providing electronic security or back-up services, such as business continuity or a disaster recovery function, for the sustainability assurance client's data or records.
- Operates, maintains, or monitors the sustainability assurance client's IT systems, network or website.

5606.3 A2 The collection, receipt, transmission and retention of data provided by a sustainability assurance client in the course of a sustainability assurance engagement or to enable the provision of a permissible service to that client does not result in an assumption of management responsibility.

### **Potential Threats Arising from the Provision of IT Systems Services**

#### *Sustainability Assurance Clients*

5606.4 A1 Providing IT systems services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the assurance of the sustainability information on which the firm will express an opinion.

5606.4 A2 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to a sustainability assurance client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's sustainability information records, internal controls over sustainability reporting or sustainability information on which the firm will express an opinion.
- The degree of reliance that will be placed on the particular IT systems as part of the sustainability assurance engagement.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5606.6 applies.

5606.4 A3 Examples of IT systems services that create a self-review threat when they form part of or affect a sustainability assurance client's sustainability information records or system of internal control over sustainability reporting include:

- Designing, developing, implementing, operating, maintaining, monitoring, updating or upgrading IT systems, including those related to cybersecurity.
- Supporting a sustainability assurance client's IT systems, including network and software applications.
- Implementing sustainability information management systems or sustainability information reporting software, whether or not it was developed by the firm or a network firm.

#### *Sustainability Assurance Clients that are Not Public Interest Entities*

5606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to a sustainability assurance client that is not a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

#### *Sustainability Assurance Clients that are Public Interest Entities*

**R5606.6** A firm or a network firm shall not provide IT systems services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R5600.15 and R5600.17).

## **SUBSECTION 5607 – LITIGATION SUPPORT SERVICES**

### **Introduction**

5607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to a sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

5607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

#### **Potential Threats Arising from the Provision of Litigation Support Services**

##### *All Sustainability Assurance Clients*

5607.3 A1 Providing litigation support services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

5607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to a sustainability assurance client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5607.6 applies.

5607.4 A2 If a firm or a network firm provides a litigation support service to a sustainability assurance client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the sustainability information on which the firm will express an opinion, the requirements and application material set out in Subsection 5603 related to valuation services apply.

##### *Sustainability Assurance Clients that are Not Public Interest Entities*

5607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to a sustainability assurance client that is not a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

*Sustainability Assurance Clients that are Public Interest Entities*

Self-review Threats

**R5607.6** A firm or a network firm shall not provide litigation support services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

5607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the sustainability information on which the firm will express an opinion.

Advocacy Threats

5607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to a sustainability assurance client that is a public interest entity is using a professional who was not a sustainability assurance team member to perform the service.

**Acting as a Witness**

*Sustainability Assurance Clients*

5607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
- (b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

5607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves a sustainability assurance client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

5607.7 A3 The advocacy threat created when acting as an expert witness on behalf of a sustainability assurance client is at an acceptable level if a firm or a network firm is:

- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
- (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
  - (i) The firm's sustainability assurance clients constitute less than 20% of the members of the class or group (in number and in value);
  - (ii) No sustainability assurance client is designated to lead the class or group; and
  - (iii) No sustainability assurance client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

*Sustainability Assurance Clients that are Not Public Interest Entities*

5607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for a sustainability assurance client that is not a public interest entity is using a professional to perform the service who is not, and has not been, a sustainability assurance team member.

*Sustainability Assurance Clients that are Public Interest Entities*

**R5607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for a sustainability assurance client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 5607.7 A3 apply.

## **SUBSECTION 5608 – LEGAL SERVICES**

### **Introduction**

5608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a legal service to a sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

5608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

5608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

#### **Potential Threats Arising from Providing Legal Services**

*All Sustainability Assurance Clients*

5608.3 A1 Providing legal services to a sustainability assurance client might create a self-review threat when there is a risk that the results of the services will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

### **A. Providing Legal Advice**

#### **Description of Service**

5608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to sustainability assurance clients, such as:

- Contract support.
- Supporting a sustainability assurance client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting a sustainability assurance client's internal legal department.
- Legal due diligence and restructuring.

### **Potential Threats Arising from Providing Legal Advice**

#### *All Sustainability Assurance Clients*

5608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to a sustainability assurance client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's sustainability information reported.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5608.7 applies.

5608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit that will be disclosed in the sustainability information on which the firm will express an opinion.
- Interpreting provisions in contracts that might affect information disclosed in the sustainability information on which the firm will express an opinion.

5608.5 A3 Negotiating on behalf of a sustainability assurance client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

#### *Sustainability Assurance Clients that are Not Public Interest Entities*

5608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed might address a self-review threat.

#### *Sustainability Assurance Clients that are Public Interest Entities*

##### Self-review Threats

**R5608.7** A firm or a network firm shall not provide legal advice to a sustainability assurance client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

##### Advocacy Threats

5608.8 A1 The considerations in paragraphs 5608.5 A1 and 5608.5 A3 to 5608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to a sustainability assurance client that is a public interest entity.



## **B. Acting as General Counsel**

### **All Sustainability Assurance Clients**

**R5608.9** An engagement leader or employee of the firm or the network firm shall not serve as General Counsel of a sustainability assurance client.

5608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

## **C. Acting in an Advocacy Role**

### **Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court**

#### *Sustainability Assurance Clients that are Not Public Interest Entities*

**R5608.10** A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts or the information involved are material to the sustainability information on which the firm will express an opinion.

5608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or the service performed.

#### *Sustainability Assurance Clients that are Public Interest Entities*

**R5608.11** A firm or a network firm shall not act in an advocacy role for a sustainability assurance client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

## **SUBSECTION 5609 – RECRUITING SERVICES**

### **Introduction**

5609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a recruiting service to a sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

5609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:

- Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
- Undertaking reference checks of prospective candidates.
- Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

### **Risk of Assuming Management Responsibility When Providing a Recruiting Service**

**R5609.3** Paragraph R5400.20 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to a sustainability assurance client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
  - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
  - Determining employment terms and negotiating details, such as salary, hours and other compensation.

### **Potential Threats Arising from Providing Recruiting Services**

#### *All Sustainability Assurance Clients*

- 5609.4 A1 Providing recruiting services to a sustainability assurance client might create a self-interest, familiarity or intimidation threat.
- 5609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:
  - Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
  - Interviewing candidates and advising on a candidate's competence for sustainability reporting, administrative or control positions.
- 5609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to a sustainability assurance client, and evaluating the level of such threats include:
  - The nature of the requested assistance.
  - The role of the individual to be recruited.
  - Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

5609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not sustainability assurance team members to perform the service.

#### Recruiting Services that are Prohibited

**R5609.5** When providing recruiting services to a sustainability assurance client, the firm or the network firm shall not act as a negotiator on the client's behalf.

**R5609.6** A firm or a network firm shall not provide a recruiting service to a sustainability assurance client if the service relates to:

- (a) Searching for or seeking out candidates;
- (b) Undertaking reference checks of prospective candidates;
- (c) Recommending the person to be appointed; or
- (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate, with respect to the following positions:
  - (i) A director or officer of the entity; or
  - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's records underlying the sustainability information or the sustainability information on which the firm will express an opinion.

## **SUBSECTION 5610 – CORPORATE FINANCE SERVICES**

### **Introduction**

5610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 5600.1 to 5600.28 A1 are relevant to applying the conceptual framework when providing a corporate finance service to a sustainability assurance client.

### **Requirements and Application Material**

#### **Description of Service**

5610.2 A1 Examples of corporate finance services include:

- Assisting a sustainability assurance client in developing corporate strategies.
- Identifying possible targets for the sustainability assurance client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

#### **Potential Threats Arising from the Provision of Corporate Finance Services**

##### *All Sustainability Assurance Clients*

5610.3 A1 Providing corporate finance services to a sustainability assurance client might create a self-review

threat when there is a risk that the results of the services will affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion. Such services might also create an advocacy threat.

5610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the sustainability information on which the firm will express an opinion.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the sustainability information on which the firm will express an opinion.
  - The outcome of the corporate finance service might have a material effect on the sustainability information on which the firm will express an opinion.

When a self-review threat for a sustainability assurance client that is a public interest entity has been identified, paragraph R5610.8 applies.

#### Corporate Finance Services that are Prohibited

**R5610.5** A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the sustainability assurance client or providing advice on investment in such shares, debt or other financial instruments.

**R5610.6** A firm or a network firm shall not provide advice in relation to corporate finance services to a sustainability assurance client where:

- (a) The effectiveness of such advice depends on a particular method of measurement or presentation in the sustainability information on which the firm will express an opinion; and
- (b) The sustainability assurance team has doubt as to the appropriateness of the related method of measurement or presentation under the relevant financial or sustainability reporting framework.

#### *Sustainability Assurance Clients that are Not Public Interest Entities*

5610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to a sustainability assurance client that is not a public interest entity include:

- Using professionals who are not sustainability assurance team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the sustainability assurance work or service performed might address a self-review threat.

#### *Sustainability Assurance Clients that are Public Interest Entities*

##### Self-review Threats

**R5610.8** A firm or a network firm shall not provide corporate finance services to a sustainability assurance client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R5600.15 and R5600.17).

Advocacy Threats

5610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to a sustainability assurance client that is a public interest entity is using professionals who are not sustainability assurance team members to perform the service.

## **SECTION 5700 INTERESTS, RELATIONSHIPS OR CIRCUMSTANCES INVOLVING VALUE CHAIN ENTITIES**

### **Introduction**

- 5700.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence.
- 5700.2 When a firm uses the work of a sustainability assurance practitioner at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion, interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and the value chain entity might create threats to independence. This section sets out application material relevant to applying the conceptual framework in such circumstances.

### **Requirement and Application Material**

#### **General**

- 5700.3 A1 The applicable reporting framework might require a sustainability assurance client to include information from value chain entities in its sustainability information. Depending on the reporting framework and the client's business and operations, this information might relate to multiple entities.

#### **Interests, Relationships or Circumstances Involving a Value Chain Entity**

- R5700.4** When the sustainability assurance team knows, or has reason to believe, that an interest, relationship or circumstance between the firm, a network firm or a member of the sustainability assurance team and the value chain entity is relevant to the evaluation of the firm's independence from the client, the sustainability assurance team shall include that interest, relationship or circumstance when identifying, evaluating and addressing threats to independence.

## CHAPTER 2 – PROPOSED REVISED GLOSSARY

Acceptable level	<p>A level at which a professional accountant or sustainability assurance practitioner using the reasonable and informed third party test would likely conclude that the accountant or the practitioner complies with the fundamental principles.</p>
Advertising	<p>The communication to the public of information as to the services or skills provided by professional accountants in public practice or sustainability assurance practitioners with a view to procuring professional business.</p>
Another Practitioner	<p>A sole practitioner, partnership or corporation of practitioners that performs assurance work relevant to a sustainability assurance engagement, and the sustainability assurance practitioner is unable to direct, supervise and review their work.</p> <p><i>An individual from another practitioner who performs the assurance work is not a member of the engagement team.</i></p>
Appropriate reviewer	<p><i>An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be a professional accountant or a sustainability assurance practitioner.</i></p> <p><i>This term is described in paragraphs 300.8 A4 and 5300.8 A4.</i></p>
Assurance client	<p>The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).</p> <p><i>In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "sustainability assurance client."</i></p>
Assurance engagement	<p>An engagement in which a professional accountant in public practice aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information.</p> <p>(ISAE 3000 (Revised) describes the elements and objectives of an assurance engagement conducted under that Standard and the Assurance Framework provides a general description of assurance engagements to which <i>International Standards on Auditing (ISAs)</i>, <i>International Standards on Review Engagements (ISREs)</i> <i>International Standards on Assurance Engagements (ISAEs)</i> and <i>International Standards on Sustainability Assurance (ISSAs)</i> apply.)</p>

*In Part 4B, the term "assurance engagement" addresses assurance engagements other than audit engagements, review engagements, or sustainability assurance engagements addressed in Part 5.*

Assurance team

- (a) All members of the engagement team for the assurance engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the assurance engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner in connection with the performance of the assurance engagement;
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
  - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement.

*In the case of sustainability assurance engagements addressed in Part 5, see the definition of "sustainability assurance team."*

Attestation engagement

An assurance engagement in which a party other than the professional accountant in public practice or the sustainability assurance practitioner, as applicable, measures or evaluates the underlying subject matter against the criteria.

A party other than the accountant or the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the accountant or the practitioner in the assurance report. In an attestation engagement, the accountant's or the practitioner's conclusion addresses whether the subject matter information is free from material misstatement.

The accountant's or the practitioner's conclusion may be phrased in terms of:

- (i) The underlying subject matter and the applicable criteria;
- (ii) The subject matter information and the applicable criteria; or
- (iii) A statement made by the appropriate party.

*In Part 4A, the term "audit" applies equally to "review."*

Audit client

An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity, in accordance with paragraphs R400.22 and R400.23, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related



entities over which the client has direct or indirect control. (See also paragraph R400.27.)

*In Part 4A, the term "audit client" applies equally to "review client."*

*In the case of a group audit, see the definition of group audit client.*

Audit engagement

A reasonable assurance engagement in which a professional accountant in public practice expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with *International Standards on Auditing*. This includes a Statutory Audit, which is an audit required by legislation or other regulation.

*In Part 4A, the term "audit engagement" applies equally to "review engagement."*

Audit report

*In Part 4A, the term "audit report" applies equally to "review report."*

Audit team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
  - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the audit engagement.

*In Part 4A, the term "audit team" applies equally to "review team." In the case of a group audit, see the definition of group audit team.*

Component

For a group audit, an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in the group audit.

For a group sustainability assurance engagement, an entity, business unit, function or business activity, or some combination thereof, determined by

the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement. This excludes entities within the value chain.

**Component audit client** A component in respect of which a group auditor firm or component auditor firm performs audit work for purposes of a group audit. When a component is:

- (a) A legal entity, the component audit client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component audit client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

**Component auditor firm** The firm performing audit work related to a component for purposes of a group audit.

**Component sustainability assurance client** A component in respect of which a group sustainability assurance firm or component sustainability assurance firm performs assurance work for purposes of a group sustainability assurance engagement. When a component is:

- (a) A legal entity, the component sustainability assurance client is the entity and any related entities over which the entity has direct or indirect control; or
- (b) A business unit, function or business activity (or some combination thereof), the component sustainability assurance client is the legal entity or entities to which the business unit belongs or in which the function or business activity is being performed.

**Component sustainability assurance firm** The firm performing assurance work related to a component for purposes of a group sustainability assurance engagement.

**Close family** A parent, child or sibling who is not an immediate family member.

**Conceptual framework** *This term is described in Sections 120 and 5120.*

**Confidential information** Any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.

**Contingent fee** A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

Cooling-off period	<i>This term is described in paragraphs R540.7 and R5540.7 for the purposes of paragraphs R540.13 to R540.21 and R5540.13 to R5540.21.</i>
Criteria	In an assurance engagement, including a sustainability assurance engagement, the benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement.
Direct engagement	An assurance engagement in which the professional accountant in public practice measures or evaluates the underlying subject matter against the applicable criteria and the accountant presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the accountant's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.
Direct financial interest	A financial interest: <ul style="list-style-type: none"><li>(a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or</li><li>(b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.</li></ul>
Director or officer	Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.
Eligible audit engagement	<i>This term is described in paragraph 800.2 for the purposes of Section 800.</i>
Eligible assurance engagement	<i>This term is described in paragraph 990.2 for the purposes of Section 990.</i>
Engagement leader	An individual, appointed by the firm, who is responsible for the sustainability assurance engagement and its performance, and for the sustainability assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. "Engagement leader" should be read as referring to its public sector equivalent where relevant.  <i>In the case of audit and review engagements, see the definition of "engagement partner."</i>

Engagement partner The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

*In the case of a sustainability assurance engagement addressed in Part 5, see the definition of "engagement leader."*

Engagement period (Audit and Review Engagements) The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

Engagement period (Sustainability Assurance Engagements Addressed in Part 5) The engagement period starts when the sustainability assurance team begins to perform the sustainability assurance engagement. The engagement period ends when the sustainability assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final sustainability assurance report.

Engagement period (Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5) The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

Engagement quality review An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.

Engagement quality reviewer A leader or partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Engagement team	<p>All leaders or partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement.</p> <p><i>In Part 4A, the term "engagement team" refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.9.</i></p> <p><i>ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.</i></p> <p><i>ISA 620 defines an auditor's expert as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. ISA 620 deals with the auditor's responsibilities relating to the work of such experts.</i></p> <p><i>ISA 610 (Revised 2013) deals with the auditor's responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.</i></p> <p><i>In Part 4B, the term "engagement team" refers to individuals performing assurance procedures on the assurance engagement.</i></p> <p><i>In Part 5, the term "engagement team" refers to individuals performing assurance procedures on the sustainability assurance engagement. This excludes individuals whose work the sustainability assurance practitioner is not able to direct, supervise and review (e.g., individuals from "another practitioner"). This term is further described in paragraph 5400.9 in Part 5.</i></p>
Existing accountant	<p>A professional accountant in public practice currently holding an audit appointment or carrying out accounting, tax, consulting or similar professional services for a client.</p>
Existing practitioner	<p>An individual or an entity currently holding an appointment to perform a sustainability assurance engagement or carrying out other professional services for a sustainability assurance client.</p>
Financial interest	<p>An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.</p>
Financial statements	<p>A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory</p>

information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.

*The term does not refer to specific elements, accounts or items of a financial statement.*

Financial statements on which the firm will express an opinion In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

Firm

- (a) A sole practitioner, partnership or corporation of professional accountants or sustainability assurance practitioners;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

*Paragraphs 400.4 and 900.3 explain how the word "firm" is used to address the responsibility of professional accountants and firms for compliance with Parts 4A and 4B, respectively.*

*Paragraph 5400.4 explains how the word "firm" is used to address the responsibility of individual sustainability assurance practitioners and firms for compliance with Part 5.*

Fundamental principles *This term is described in paragraphs 110.1 A1 and 5110.1 A1. Each of the fundamental principles is, in turn, described in the following paragraphs:*

*Integrity R111.1 and R5111.1*

*Objectivity R112.1 and R5112.1*

*Professional competence and due care R113.1 and R5113.1*

*Confidentiality R114.1 to R114.3 and R5114.1 to R5114.3*

*Professional behavior R115.1 and R5115.1*

General purpose framework A reporting framework designed to meet the common information needs of a wide range of users. The framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the reported information, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the reported information. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above.

*In Part 5, general purpose framework refers to general purpose sustainability reporting frameworks.*

**Group** A reporting entity for which group financial statements or group sustainability information is prepared.

**Group audit** The audit of group financial statements.

**Group audit client** The entity on whose group financial statements the group auditor firm conducts an audit engagement. When the entity is a publicly traded entity, the group audit client will always include its related entities and any other components at which audit work is performed. When the entity is not a publicly traded entity, the group audit client includes related entities over which such entity has direct or indirect control and any other components at which audit work is performed.

*See also paragraph R400.27.*

**Group auditor firm** The firm that expresses the opinion on the group financial statements.

**Group audit team** (a) All members of the engagement team for the group audit, including individuals within, or engaged by, component auditor firms who perform audit procedures related to components for purposes of the group audit;

(b) All others within, or engaged by, the group auditor firm who can directly influence the outcome of the group audit, including:

(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement partner in connection with the performance of the group audit, including those at all successively senior levels above the group engagement partner through to the

individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);

- (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group audit; and
  - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group audit;
- (c) Any other individuals within a network firm of the group auditor firm's network who can directly influence the outcome of the group audit; and
- (d) Any other individuals within a component auditor firm outside the group auditor firm's network who can directly influence the outcome of the group audit.

Group engagement leader      The engagement leader who is responsible for the group sustainability assurance engagement.

Group engagement partner      The engagement partner who is responsible for the group audit.

Group financial statements      Financial statements that include the financial information of more than one entity or business unit through a consolidation process.

Group sustainability assurance client      The entity on whose group sustainability information the group sustainability assurance firm conducts a sustainability assurance engagement. When the entity is a publicly traded entity, the group sustainability assurance client will always include its related entities and any other components at which assurance work is performed. When the entity is not a publicly traded entity, the group sustainability assurance client includes related entities over which such entity has direct or indirect control and any other components at which assurance work is performed.  
*See also paragraph R5400.27.*

Group sustainability assurance engagement      The sustainability assurance engagement to report on group sustainability information.



Group sustainability assurance firm	The firm that expresses the opinion on the group sustainability information.
Group sustainability assurance team	<ul style="list-style-type: none"><li>(a) All members of the engagement team for the group sustainability assurance engagement, including individuals within, or engaged by, component sustainability assurance firms who perform assurance procedures related to components for purposes of the group sustainability assurance engagement;</li><li>(b) All others within, or engaged by, the group sustainability assurance firm who can directly influence the outcome of the group sustainability assurance engagement, including:<ul style="list-style-type: none"><li>(i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the group engagement leader in connection with the performance of the group sustainability assurance engagement, including those at all successively senior levels above the group engagement leader through to the individual who is the firm's Chief Executive or equivalent;</li><li>(ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the group sustainability assurance engagement; and</li><li>(iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the group sustainability assurance engagement;</li></ul></li><li>(c) Any other individuals within a network firm of the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement; and</li><li>(d) Any other individuals within a component sustainability assurance firm outside the group sustainability assurance firm's network who can directly influence the outcome of the group sustainability assurance engagement.</li></ul>
Group sustainability information	Sustainability information that includes the sustainability information of more than one entity or business unit.
Historical financial information	Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

Immediate family	A spouse (or equivalent) or dependent.
Independence	<p>Independence comprises:</p> <p>(a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.</p> <p>(b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit, assurance, or sustainability assurance team member's, integrity, objectivity or professional skepticism has been compromised.</p> <p><i>As set out in paragraphs 400.5, 900.4, and 5400.5 references to an individual or firm being "independent" mean that the individual or firm has complied with Parts 4A, 4B and 5, as applicable.</i></p>
Indirect financial interest	A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.
Inducement	<p>An object, situation, or action that is used as a means to influence another individual's behavior, but not necessarily with the intent to improperly influence that individual's behavior.</p> <p><i>Inducements can range from minor acts of hospitality between business colleagues (for professional accountants in business), between professional accountants and existing or prospective clients (for professional accountants in public practice), or between sustainability assurance practitioners and existing or prospective sustainability assurance clients, to acts that result in non-compliance with laws and regulations. An inducement can take many different forms, for example:</i></p> <ul style="list-style-type: none"> <li>• <i>Gifts.</i></li> <li>• <i>Hospitality.</i></li> <li>• <i>Entertainment.</i></li> <li>• <i>Political or charitable donations.</i></li> <li>• <i>Appeals to friendship and loyalty.</i></li> <li>• <i>Employment or other commercial opportunities.</i></li> <li>• <i>Preferential treatment, rights or privileges.</i></li> </ul>
Key audit partner	The engagement partner, the individual responsible for the engagement quality review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the

audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, engagement partners for certain components in a group audit such as significant subsidiaries or divisions.

Key sustainability assurance leader	The engagement leader, the individual responsible for the engagement quality review, and other leaders, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, "other leaders" might include, for example, engagement leaders for certain components in a group sustainability assurance engagement such as significant subsidiaries or divisions.
Leader	<p>Any individual with authority to bind a firm with respect to the performance of a professional service.</p> <p><i>This term is used in the context of sustainability assurance engagements in Part 5.</i></p>
May	<p><i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i></p>
Might	<p><i>This term is used in the Code to denote the possibility of a matter arising, an event occurring or a course of action being taken. The term does not ascribe any particular level of possibility or likelihood when used in conjunction with a threat, as the evaluation of the level of a threat depends on the facts and circumstances of any particular matter, event or course of action.</i></p>
Network	<p>A larger structure:</p> <ul style="list-style-type: none"><li>(a) That is aimed at co-operation; and</li><li>(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand-name, or a significant part of professional resources.</li></ul>
Network firm	<p>A firm or entity that belongs to a network.</p> <p><i>For further information, see paragraphs 400.50 A1 to 400.54 A1 in Part 4A and paragraphs 5400.50 A1 to 5400.54 A1 in Part 5.</i></p>

Non-compliance with laws and regulations

*Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

*(Professional Accountants in Business)*

- (a) *The professional accountant's employing organization;*
- (b) *Those charged with governance of the employing organization;*
- (c) *Management of the employing organization; or*
- (d) *Other individuals working for or under the direction of the employing organization.*

*This term is described in paragraph 260.5 A1.*

Non-compliance with laws and regulations

*Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

*(Professional Accountants in Public Practice)*

- (a) *A client;*
- (b) *Those charged with governance of a client;*
- (c) *Management of a client; or*
- (d) *Other individuals working for or under the direction of a client.*

*This term is described in paragraph 360.5 A1.*

Non-compliance with laws and regulations

*Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:*

*(Sustainability Assurance Practitioners)*

- (a) *A sustainability assurance client;*
- (b) *Those charged with governance of a sustainability assurance client;*
- (c) *Management of a sustainability assurance client; or*
- (d) *Other individuals working for or under the direction of a sustainability assurance client.*

*This term is described in paragraph 5360.5 A1.*

Office

A distinct sub-group, whether organized on geographical or practice lines.

Predecessor accountant

A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

Predecessor practitioner	An individual or an entity who most recently held an appointment to perform a sustainability assurance engagement or carried out other professional services for a sustainability assurance client, where there is no existing practitioner.
Professional accountant	<p>An individual who is a member of an IFAC member body.</p> <p><i>In Part 1, the term "professional accountant" refers to individual professional accountants in business and to professional accountants in public practice and their firms.</i></p> <p><i>In Part 2, the term "professional accountant" refers to professional accountants in business.</i></p> <p><i>In Parts 3, 4A and 4B, the term "professional accountant" refers to professional accountants in public practice and their firms.</i></p>
Professional accountant in business	A professional accountant working in areas such as commerce, industry, service, the public sector, education, the not-for-profit sector, or in regulatory or professional bodies, who might be an employee, contractor, partner, director (executive or non-executive), owner-manager or volunteer.
Professional accountant in public practice	<p>A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services.</p> <p><i>The term "professional accountant in public practice" is also used to refer to a firm of professional accountants in public practice.</i></p>
Professional activity	An activity requiring professional skills undertaken by a professional accountant or a sustainability assurance practitioner, including accounting, auditing, sustainability reporting or assurance, tax, consulting, and financial management.
Professional judgment	<p><i>Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.</i></p> <p><i>This term is described in paragraphs 120.5 A4 and 5120.5 A4.</i></p>
Professional services	Professional activities performed for clients.
Proposed accountant	A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

Proposed practitioner A sustainability assurance practitioner who is considering accepting an appointment to perform a sustainability assurance engagement or carry out other professional services for a prospective sustainability assurance client (or in some cases, an existing sustainability assurance client).

Public interest entity For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.23 A1 and 400.23 A2.

Publicly traded entity An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

*A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.*

Reasonable and informed third party *The reasonable and informed third party test is a consideration by the professional accountant or the sustainability assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant or the sustainability assurance practitioner knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant or a sustainability assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's or sustainability assurance practitioner's conclusions in an impartial manner.*

Reasonable and informed third party test *These terms are described in paragraphs 120.5 A9 and 5120.5 A9.*

Related entity An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is

material to such entity;

- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity

Responsible party In an assurance engagement, the party responsible for the underlying subject matter.

Review client An entity in respect of which a firm conducts a review engagement.

Review engagement An assurance engagement, conducted in accordance with *International Standards on Review Engagements* or equivalent, in which a professional accountant in public practice expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the accountant's attention that causes the accountant to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review team

- (a) All members of the engagement team for the review engagement; and
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the review engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement, including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
  - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the review engagement.

Safeguards	<p><i>Safeguards are actions, individually or in combination, that the professional accountant or the sustainability assurance practitioner takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.</i></p> <p><i>This term is described in paragraphs 120.10 A2 and 5120.10 A2.</i></p>
Senior professional accountant in business	<p><i>Senior professional accountants in business are directors, officers or senior employees able to exert significant influence over, and make decisions regarding, the acquisition, deployment and control of the employing organization's human, financial, technological, physical and intangible resources.</i></p> <p><i>This term is described in paragraph 260.11 A1.</i></p>
Special purpose financial statements	<p>Financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specified users.</p>
Subject matter information	<p>The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.</p>
Substantial harm	<p><i>This term is described in paragraphs 260.5 A3, 360.5 A3 and 5360.5 A3.</i></p>
Sustainability assurance client	<p>An entity in respect of which a firm conducts a sustainability assurance engagement. When the client is a publicly traded entity, sustainability assurance client will always include its related entities. When the sustainability assurance client is not a publicly traded entity, sustainability assurance client includes those related entities over which the client has direct or indirect control. (See also paragraph R5400.27.)</p>
Sustainability assurance engagement	<p>An engagement in which a sustainability assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users about the sustainability information.</p> <p>A sustainability assurance engagement can be either a:</p> <ul style="list-style-type: none"><li>• Reasonable assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation, including presentation and disclosure, of</li></ul>



the underlying subject matter against applicable criteria; or

- Limited assurance engagement – An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner’s attention to cause the practitioner to believe the sustainability information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the sustainability information to a degree that is clearly more than inconsequential.

Sustainability assurance practitioner      The individual(s) conducting a sustainability assurance engagement (usually the engagement leader or other members of the engagement team, or, as applicable, the firm).

Sustainability assurance team

- (a) All members of the engagement team for the sustainability assurance engagement;
- (b) All others within, or engaged by, the firm who can directly influence the outcome of the sustainability assurance engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement leader in connection with the performance of the sustainability assurance engagement, including those at all successively senior levels above the engagement leader through to the individual who is the firm’s Chief Executive;
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
  - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individuals within a network firm who can directly influence the outcome of the sustainability assurance engagement.

Sustainability information

- (a) Information about the opportunities, risks or impacts of:
  - (i) Economic, environmental, social, governance or other sustainability factors on an entity’s activities, services or

products; or

(ii) An entity’s activities, services or products on the economy, the environment or the public; or

(b) Information defined by law, regulation or the relevant reporting or assurance framework as “sustainability information” or equivalent terms or descriptions.

*Sustainability information includes information that may be:*

- *Expressed in financial or non-financial terms.*
- *Historical or forward-looking.*
- *Prepared for internal purposes or for mandatory or voluntary disclosure.*
- *Obtained from an entity or its value chain.*
- *Related to the quantitative or qualitative evaluation of an entity’s past or expected performance over the short, medium or long term.*
- *Described in an entity’s policies, plans, goals, commitments or representations.*

Those charged with governance The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process or the sustainability reporting process, as applicable. For some entities in some jurisdictions, those charged with governance might include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Threats *This term is described in paragraphs 120.6 A3 and 5120.6 A3 and includes the following categories:*

<i>Self-interest</i>	<i>120.6 A3(a) and 5120.6 A3(a)</i>
<i>Self-review</i>	<i>120.6 A3(b) and 5120.6 A3(b)</i>
<i>Advocacy</i>	<i>120.6 A3(c) and 5120.6 A3(c)</i>
<i>Familiarity</i>	<i>120.6 A3(d) and 5120.6 A3(d)</i>
<i>Intimidation</i>	<i>120.6 A3(e) and 5120.6 A3(e)</i>

Time-on period *This term is described in paragraphs R540.7 in Part 4A and R5540.7 in Part 5*

Underlying subject matter      The phenomenon that is measured or evaluated by applying criteria.

Value Chain      The value chain is a reporting concept that is defined, described or otherwise specified in the applicable sustainability reporting framework.

*The value chain might include, for example, a sustainability assurance client's customers and suppliers that are material for sustainability reporting purposes.*

*The value chain does not include components.*

## CHAPTER 3 – PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS TO INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)

### PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

#### SECTION 100

#### COMPLYING WITH THE CODE

(....)

##### Breaches of the Code

**R100.8** Paragraphs R400.80 to R400.89, 405.22 A1 to R405.29, R900.50 to R900.55, R5400.80 to R5400.89 and 5405.22 A1 to R5405.29 address a breach of *International Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant’s ability to comply with the fundamental principles. The accountant shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.8 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

(....)

#### SECTION 120

#### THE CONCEPTUAL FRAMEWORK

(....)

#### Requirements and Application Material

##### General

**R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.

120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:

- (a) Part 2 – *Professional Accountants in Business*;
- (b) Part 3 – *Professional Accountants in Public Practice*;
- (c) *International Independence Standards*, as follows:

- (i) Part 4A – *Independence for Audit and Review Engagements*; and
- (ii) Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, Review Engagements and Sustainability Assurance Engagements Addressed in Part 5; and*
- (d) Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards)*.

**R120.4**

When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

**(....)**

## **PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

### **SECTION 260**

#### **RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS**

##### **Introduction**

- 260.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 260.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 260.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of carrying out professional activities. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the employing organization's financial statements or sustainability information; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts, impacts and disclosures in the employing organization's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the employing organization's business, to its ability to continue its business, or to avoid material penalties.

##### **Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations**

- 260.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the employing organization, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

##### **Requirements and Application Material**

###### **General**

- 260.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:

- (a) The professional accountant's employing organization;
- (b) Those charged with governance of the employing organization;
- (c) Management of the employing organization; or
- (d) Other individuals working for or under the direction of the employing organization.

260.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

260.5 A3 Non-compliance might result in fines, litigation or other consequences for the employing organization, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, non-compliance that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R260.6** In some jurisdictions, there are legal or regulatory provisions governing how professional accountants are required to address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the relevant party.

(....)

### **Responsibilities of Senior Professional Accountants in Business**

(....)

*Addressing the Matter*

(....)

260.14 A2 Some laws and regulations might stipulate a period within which reports of non-compliance or suspected non-compliance are to be made to an appropriate authority.

**R260.15** In addition to responding to the matter in accordance with the provisions of this section, the senior professional accountant shall determine whether disclosure of the matter to the employing organization's external auditor or sustainability assurance practitioner performing a sustainability assurance engagement that is within the scope of the *International Independence Standards* in Part 5, if any, is needed.

260.15 A1 Such disclosure would be pursuant to the senior professional accountant's duty or legal obligation to provide all information necessary to enable the auditor to perform the audit or the sustainability assurance practitioner to perform the sustainability assurance engagement that is within the scope of the *International Independence Standards* in Part 5.

*Determining Whether Further Action Is Needed*

**R260.16** The senior professional accountant shall assess the appropriateness of the response of the accountant's superiors, if any, and those charged with governance.

(...)



## **PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

##### **Introduction**

300.1 This Part of the Code sets out requirements and application material for professional accountants in public practice when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in public practice, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in public practice to be alert for such facts and circumstances.

300.2 The requirements and application material that apply to professional accountants in public practice are set out in:

- Part 3 – *Professional Accountants in Public Practice*, Sections 300 to 399, which applies to all professional accountants in public practice, whether they provide assurance services or not.
- *International Independence Standards* as follows:
  - Part 4A – *Independence for Audit and Review Engagements*, Sections 400 to 899, which applies to professional accountants in public practice when performing audit and review engagements.
  - Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5*, Sections 900 to 999, which applies to professional accountants in public practice when performing assurance engagements other than audit engagements, review engagements, or sustainability assurance engagements that are within the scope of the *International Independence Standards* in Part 5.
- Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards)*, Sections 5100 to 5700, which applies to professional accountants in public practice when performing sustainability assurance engagements.

300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

(....)

## **SECTION 360**

### **RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS**

#### **Introduction**

- 360.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 360.2 A self-interest or intimidation threat to compliance with the principles of integrity and professional behavior is created when a professional accountant becomes aware of non-compliance or suspected non-compliance with laws and regulations.
- 360.3 A professional accountant might encounter or be made aware of non-compliance or suspected non-compliance in the course of providing a professional service to a client. This section guides the accountant in assessing the implications of the matter and the possible courses of action when responding to non-compliance or suspected non-compliance with:
- (a) Laws and regulations generally recognized to have a direct effect on the determination of material amounts, impacts and disclosures in the client's financial statements or sustainability information; and
  - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts, impacts and disclosures in the client's financial statements or sustainability information, but compliance with which might be fundamental to the operating aspects of the client's business, to its ability to continue its business, or to avoid material penalties.

#### **Objectives of the Professional Accountant in Relation to Non-compliance with Laws and Regulations**

- 360.4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. When responding to non-compliance or suspected non-compliance, the objectives of the professional accountant are:
- (a) To comply with the principles of integrity and professional behavior;
  - (b) By alerting management or, where appropriate, those charged with governance of the client, to seek to:
    - (i) Enable them to rectify, remediate or mitigate the consequences of the identified or suspected non-compliance; or
    - (ii) Deter the commission of the non-compliance where it has not yet occurred; and
  - (c) To take such further action as appropriate in the public interest.

#### **Requirements and Application Material**

##### **General**

- 360.5 A1 Non-compliance with laws and regulations ("non-compliance") comprises acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
- (a) A client;
  - (b) Those charged with governance of a client;
  - (c) Management of a client; or

(d) Other individuals working for or under the direction of a client.

360.5 A2 Examples of laws and regulations which this section addresses include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.
- Protection of human rights.
- Labor conditions and rights of employees.
- Consumer rights.

360.5 A3 Non-compliance might result in fines, litigation or other consequences for the client, potentially materially affecting its financial statements or sustainability information. Importantly, such non-compliance might have wider public interest implications in terms of potentially substantial harm to investors, creditors, employees or the general public. For the purposes of this section, an act that causes substantial harm is one that results in serious adverse consequences to any of these parties in financial or non-financial terms. Examples include the perpetration of a fraud resulting in significant financial losses to investors, and breaches of environmental laws and regulations endangering the health or safety of employees or the public.

**R360.6** In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance. These legal or regulatory provisions might differ from or go beyond the provisions in this section. When encountering such non-compliance or suspected non-compliance, the accountant shall obtain an understanding of those legal or regulatory provisions and comply with them, including:

- (a) Any requirement to report the matter to an appropriate authority; and
- (b) Any prohibition on alerting the client.

(....)

### **Audits of Financial Statements**

(....)

360.18 A1 The purpose of the communication is to enable those responsible for audit work at the components, legal entities or business units to be informed about the matter and to determine whether and, if so, how to address it in accordance with the provisions in this section. The communication requirement applies regardless of whether the group engagement partner's firm or network is the same as or different from the firms or networks of those performing audit work at the components, legal entities or business units.

Communicating the Matter to the Client's Sustainability Assurance Practitioner

**R360.18a** The professional accountant shall consider whether to communicate the non-compliance or suspected non-compliance to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement that is within the scope of the *International Independence Standards* in Part 5, if any.

Relevant Factors to Consider

360.18a A1 Factors relevant to considering the communication in accordance with paragraph R360.18a include:

- Whether doing so would be contrary to law or regulation.
- Whether there are restrictions about disclosure imposed by a regulatory agency or prosecutor in an ongoing investigation into the non-compliance or suspected non-compliance.
- Whether the purpose of the engagement is to investigate potential non-compliance within the entity to enable it to take appropriate action.
- Whether management or those charged with governance have already informed the client's sustainability assurance practitioner about the matter.
- Whether and, if so, how the firm's or network firm's protocols or procedures address communication of non-compliance or suspected non-compliance within the firm or network firm.

Purpose of Communication

360.18a A2 In the circumstances addressed in paragraph R360.18a, the purpose of the communication is to enable the engagement leader to be informed about the non-compliance or suspected non-compliance and to determine whether and, if so, how to address it in accordance with the provisions of Part 5.

*Determining Whether Further Action Is Needed*

**R360.19** The professional accountant shall assess the appropriateness of the response of management and, where applicable, those charged with governance.

(....)

## **PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

### **SECTION 400**

#### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS**

(....)

##### **Assurance Engagements other than Audit and Review Engagements**

400.17 Independence standards for assurance engagements that are not audit or review engagements are set out in:

- Part 4B – *Independence for Assurance Engagements Other than Audit Engagements, Review Engagements, and Sustainability Assurance Engagements Addressed in Part 5.*
- Part 5 – *International Ethics Standards for Sustainability Assurance (including International Independence Standards)*

### **SECTION 410**

#### **FEES**

##### **Introduction**

(....)

##### **Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee**

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services, including sustainability assurance engagements, to be performed by the firm.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.

- Reducing the extent of services other than audit provided to the audit client.

(...)

## **SECTION 540**

### **LONG ASSOCIATION OF PERSONNEL (INCLUDING PARTNER ROTATION) WITH AN AUDIT CLIENT**

(....)

#### **Introduction**

- 540.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 540.2 When an individual is involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time, familiarity and self-interest threats might be created. This section sets out requirements and application material relevant to applying the conceptual framework in such circumstances.

#### **Requirements and Application Material**

##### **General**

- 540.3 A1 References in this Section to key sustainability assurance leader, sustainability assurance team and sustainability assurance engagement are in the context of sustainability assurance engagements within the scope of the International Independence Standards in Part 5.

##### **All Audit Clients**

- 540.4 A1 Although an understanding of an audit client and its environment is fundamental to audit quality, a familiarity threat might be created as a result of an individual's long association as an audit team member or sustainability assurance team member with:
- (a) The audit client and its operations;
  - (b) The audit client's senior management; or
  - (c) The financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.
- 540.4A2 A self-interest threat might be created as a result of an individual's concern about losing a longstanding client or an interest in maintaining a close personal relationship with a member of senior management or those charged with governance. Such a threat might influence the individual's judgment inappropriately.
- 540.4 A3 Factors that are relevant to evaluating the level of such familiarity or self-interest threats include:
- (a) In relation to the individual:
    - The overall length of the individual's relationship with the client, including if such relationship existed while the individual was at a prior firm.

- How long the individual has been an engagement team member for the audit engagement or sustainability assurance engagement, and the nature of the roles performed.
- The extent to which the work of the individual is directed, reviewed and supervised by more senior personnel.
- The extent to which the individual, due to the individual's seniority, has the ability to influence the outcome of the audit, for example, by making key decisions or directing the work of other engagement team members.
- The closeness of the individual's personal relationship with senior management or those charged with governance.
- The nature, frequency and extent of the interaction between the individual and senior management or those charged with governance.

(b) In relation to the audit client:

- The nature or complexity of the client's accounting and financial reporting issues and whether they have changed.
- Whether there have been any recent changes in senior management or those charged with governance.
- Whether there have been any structural changes in the client's organization which impact the nature, frequency and extent of interactions the individual might have with senior management or those charged with governance.

540.4 A4 The combination of two or more factors might increase or reduce the level of the threats. For example, familiarity threats created over time by the increasingly close relationship between an individual and a member of the client's senior management would be reduced by the departure of that member of the client's senior management.

540.4 A5 An example of an action that might eliminate the familiarity and self-interest threats created by an individual being involved in an audit engagement, or a combination of audit and sustainability assurance engagements for the same client, over a long period of time would be rotating the individual off the audit team.

540.4 A6 Examples of actions that might be safeguards to address such familiarity or self-interest threats include:

- Changing the role of the individual on the audit team or the nature and extent of the tasks the individual performs.
- Having an appropriate reviewer who was not an audit team member review the work of the individual.
- Performing regular independent internal or external quality reviews of the engagement.

**R540.5** If a firm decides that the level of the threats created can only be addressed by rotating the individual off the audit team, the firm shall determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the audit engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; or

- (c) Exert direct influence on the outcome of the audit engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.22 also apply.

**R540.6** Where an individual is a member of both the audit team and the sustainability assurance team for the same client and the firm decides that the level of the threats created can only be addressed by rotating the individual off both the audit team and the sustainability assurance team, the firm shall, in addition to complying with paragraph R540.5, determine an appropriate period during which the individual shall not:

- (a) Be a member of the engagement team for the sustainability assurance engagement;
- (b) Perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the sustainability assurance engagement; or
- (c) Exert direct influence on the outcome of the sustainability assurance engagement.

The period shall be of sufficient duration to allow the familiarity and self-interest threats to be addressed. In the case of a public interest entity, paragraphs R540.7 to R540.22 also apply.

*Audit Clients that are Public Interest Entities*

**R540.7** Subject to paragraphs R540.9 to R540.11, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for performing the engagement quality review;
- (c) Any other key audit partner role; or
- (d) A key sustainability assurance leader.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.13 to R540.21.

**R540.8** In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.7(a) to (d) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.13 to R540.15 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.8 A1 For example,

- An individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.17.
- An individual who served as engagement partner for two years for the audit of the sustainability assurance client’s financial statements might be appointed as the individual responsible for performing the engagement quality review for the sustainability assurance engagement for five further years. Thereafter, that individual is required to cool off in accordance with paragraph R540.18.



**R540.9** As an exception to paragraph R540.7, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.9 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

**R540.10** If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner or a key sustainability assurance leader before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in the capacity of a key audit partner before rotating off the audit engagement is seven years less the number of years already served. As an exception to paragraph R540.7, if the individual has served the audit client as a key audit partner or a key sustainability assurance leader for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in the capacity of a key audit partner with the concurrence of those charged with governance for a maximum of two additional years before rotating off the audit engagement.

**R540.11** When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.7, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

#### Other Considerations Relating to the Time-on Period

**R540.12** In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement or the sustainability assurance engagement for the same client prior to the individual becoming a key audit partner.

540.12 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

#### Cooling-off Period

**R540.13** If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

**R540.14** Where the individual has been appointed as responsible for the engagement quality review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

**R540.15** If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.13 and R540.14 for seven cumulative years, the cooling-off period shall be two consecutive years.

540.16 A1 The partner rotation requirements in this section are distinct from, and do not modify, the cooling-off period required by ISQM 2 as a condition for eligibility before the engagement partner can assume the role of engagement quality reviewer (see paragraph 325.8 A4).

Service in a combination of key audit partner or key sustainability assurance leader roles

**R540.17** If the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the engagement partner or engagement leader for four or more cumulative years, the cooling-off period shall be five consecutive years.

**R540.18** Subject to paragraph R540.19(a), if the individual acted in a combination of key audit partner or key sustainability assurance leader roles and served as the key audit partner or key sustainability assurance leader responsible for the engagement quality review for four or more cumulative years, the cooling-off period shall be three consecutive years.

**R540.19** If an individual has acted in a combination of engagement partner, engagement leader and engagement quality reviewer roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.18, be five consecutive years where the individual has been the engagement partner or engagement leader for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

**R540.20** If the individual acted in any combination of key audit partner or key sustainability assurance leader roles other than those addressed in paragraphs R540.17 to R540.19, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

**R540.21** In determining the number of years that an individual has been a key audit partner or a key sustainability assurance leader as set out in paragraph R540.7, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on the audit engagement or a key sustainability assurance leader on the sustainability assurance engagement for the same client at a prior firm.

**[Paragraph R540.22 Intentionally left blank]**

Restrictions on Activities During the Cooling-off Period

- R540.23** For the duration of the relevant cooling-off period, the individual shall not:
- (a) Be an engagement team member or perform an engagement quality review, or a review consistent with the objective of an engagement quality review for the audit engagement or the sustainability assurance engagement;
  - (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement or sustainability assurance engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit engagement or sustainability assurance engagement);

- (c)** Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d)** Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:
  - (i)** Having significant or frequent interaction with senior management or those charged with governance; or
  - (ii)** Exerting direct influence on the outcome of the audit engagement or sustainability assurance engagement.

540.23 A1 The provisions of paragraph R540.23 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

## **PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS ADDRESSED IN PART 5**

### **SECTION 900**

#### **APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT ENGAGEMENTS, REVIEW ENGAGEMENTS, AND SUSTAINABILITY ASSURANCE ENGAGEMENTS WITHIN THE SCOPE OF THE INTERNATIONAL INDEPENDENCE STANDARDS IN PART 5**

##### **Introduction**

###### **General**

900.1 This Part applies to assurance engagements other than audit engagements, review engagements, and sustainability assurance engagements within the scope of the International Independence Standards in Part 5. Examples of such engagements include:

- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's non-financial information, other than assurance on sustainability information within the scope of the International Independence Standards in Part 5.
- An audit of specific elements, accounts or items of a financial statement.
- A sustainability assurance engagement that is not within the scope of the International Independence Standards in Part 5, for example:
  - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with a framework designed to meet the information needs of specified users.
  - A sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion is reported in accordance with entity-developed criteria.
  - A sustainability assurance engagement for which the sustainability assurance report is a restricted use and distribution report.

(...)

###### **Audit and Review Engagements**

900.10 Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.

Sustainability Assurance Engagements Addressed in Part 5

- 900.11 Part 5 sets out independence standards for certain sustainability assurance engagements. If a firm performs both a sustainability assurance engagement within the scope of the International Independence Standards in Part 5 and another assurance engagement within the scope of this Part for the same client, the requirements in Part 5 continue to apply to the firm, a network firm and the sustainability assurance team members.

## **CHAPTER 4 – PROPOSED SUSTAINABILITY REPORTING-RELATED REVISIONS TO PARTS 1 TO 3 OF INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS)**

### **PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK**

#### **SECTION 100**

#### **COMPLYING WITH THE CODE**

##### **Introduction**

- 100.1 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.
- 100.2 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. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:
- (a) Adherence to ethical principles and professional standards;
  - (b) Use of business acumen;
  - (c) Application of expertise on technical and other matters; and
  - (d) Exercise of professional judgment.
- The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.
- 100.3 The Code sets out high quality standards of ethical behavior expected of professional accountants for adoption by professional accountancy organizations which are members of the International Federation of Accountants (IFAC), or for use by such members as a basis for their codes of ethics. The Code may also be used or adopted by those responsible for setting ethics (including independence) standards for professional accountants in particular sectors or jurisdictions and by firms in developing their ethics and independence policies.
- 100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice.

**(....)**

## **PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

### **SECTION 200**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS**

##### **Introduction**

200.1 This Part of the Code sets out requirements and application material for professional accountants in business when applying the conceptual framework set out in Section 120. It does not describe all of the facts and circumstances, including professional activities, interests and relationships, that could be encountered by professional accountants in business, which create or might create threats to compliance with the fundamental principles. Therefore, the conceptual framework requires professional accountants in business to be alert for such facts and circumstances.

200.2 Investors, creditors, employing organizations and other sectors of the business community, as well as governments and the general public, might rely on the work of professional accountants in business. Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial and non-financial information, including sustainability information, on which both their employing organizations and third parties might rely. They might also be responsible for providing effective financial management and competent advice on a variety of business-related matters.

200.3 A professional accountant in business might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has no bearing on the ethical responsibilities placed on the accountant.

(....)

##### **Identifying Threats**

200.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories that might create threats for a professional accountant when undertaking a professional activity:

(a) Self-interest Threats

- A professional accountant holding a financial interest in, or receiving a loan or guarantee from, the employing organization.
- A professional accountant participating in incentive compensation arrangements offered by the employing organization.
- A professional accountant holding a financial interest in a supplier of the employing organization and that supplier is impacted by the employing organization's sustainability targets or practices.
- A professional accountant having access to corporate assets for personal use.
- A professional accountant being offered a gift or special treatment from a supplier of the employing organization.

(b) Self-review Threats

- A professional accountant determining the appropriate accounting treatment for a business combination after performing the feasibility study supporting the purchase decision.
- A professional accountant determining the appropriate methodology to calculate emission reductions after performing the feasibility study supporting a capital project to reduce emissions.

(c) Advocacy Threats

- A professional accountant having the opportunity to manipulate information in a prospectus, including in relation to a sustainability or sustainability-linked bond, in order to obtain favorable financing.

(d) Familiarity Threats

- A professional accountant being responsible for the financial or non-financial, including sustainability, reporting of the employing organization when an immediate or close family member employed by the organization makes decisions that affect the financial or non-financial reporting of the organization.
- A professional accountant having a long association with individuals influencing business decisions.

(e) Intimidation Threats

- A professional accountant or immediate or close family member facing the threat of dismissal or replacement over a disagreement about:
  - The application of an accounting principle or a sustainability reporting principle.
  - The determination of measurement methods, metrics, targets, estimation criteria or assumptions for sustainability information.
  - The way in which financial or non-financial information is to be reported.
- An individual attempting to influence the decision-making process of the professional accountant, for example with regard to the awarding of contracts or the application of an accounting principle or a sustainability reporting principle.

*Identifying Threats Associated with the Use of Technology*

200.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
  - The data available might not be sufficient for the effective use of the technology.
  - The technology might not be appropriate for the purpose for which it is to be used.
  - The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.



(Ref: Para. 230.2).

- Self-review Threats
  - The technology was designed or developed using the knowledge, expertise or judgment of the accountant or employing organization.

(....)

### **Communicating with Those Charged with Governance**

**R200.9** When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the employing organization's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

200.9 A1 In determining with whom to communicate, a professional accountant might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

200.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

**R200.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

200.10 A1 In some circumstances, all of those charged with governance are involved in managing the employing organization, for example, a small business where a single owner manages the organization and no one else has a governance role. In these cases, if matters are communicated with individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

## SECTION 210

### CONFLICTS OF INTEREST

(....)

#### Requirements and Application Material

##### General

**R210.4** A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

210.4 A1 Examples of circumstances that might create a conflict of interest include:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one organization that might be used by the professional accountant to the advantage or disadvantage of the other organization.
- Undertaking a professional activity for each of two parties in a partnership, where both parties are employing the accountant to assist them to dissolve their partnership.
- Preparing financial or non-financial information for certain members of management of the accountant's employing organization who are seeking to undertake a management buy-out.
- Being responsible for selecting a vendor for the employing organization when an immediate family member of the accountant might benefit financially from the transaction.
- Serving in a governance capacity in an employing organization that is approving certain investments for the company where one of those investments will increase the value of the investment portfolio of the accountant or an immediate family member.

##### Conflict Identification

**R210.5** A professional accountant shall take reasonable steps to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles. Such steps shall include identifying:

- (a) The nature of the relevant interests and relationships between the parties involved; and
- (b) The activity and its implication for relevant parties.

(....)

## SECTION 220

### PREPARATION AND PRESENTATION OF INFORMATION

#### Introduction

- 220.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 220.2 Preparing or presenting information might create a self-interest, intimidation or other threats to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

220.3 A1 Professional accountants at all levels in an employing organization are involved in the preparation or presentation of information both within and outside the organization.

220.3 A2 Stakeholders to whom, or for whom, such information is prepared or presented, include:

- Management and those charged with governance.
- Investors and lenders or other creditors.
- Regulatory bodies.

This information might assist stakeholders in understanding and evaluating aspects of the employing organization's operations and state of affairs and in making decisions concerning the organization. Information can include financial and non-financial information that might be made public or used for internal purposes.

Examples include:

- Operating and performance reports.
- Decision support analyses.
- Budgets and forecasts.
- Information provided to the internal and external auditors.
- Sustainability information, including information provided to the sustainability assurance practitioner.
- Risk and impact analyses.
- General and special purpose financial statements.
- Tax returns.
- Reports filed with regulatory bodies for legal and compliance purposes.

220.3 A3 For the purposes of this section, preparing or presenting information includes collecting, recording, measuring, maintaining and approving information.

- R220.4** When preparing or presenting information, a professional accountant shall:
- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
  - (b) Prepare or present the information in a manner that is intended neither to mislead others nor to influence contractual or regulatory outcomes inappropriately;
  - (c) Exercise professional judgment to:
    - (i) Represent the facts accurately and completely in all material respects;
    - (ii) Describe clearly the true nature and impacts of business transactions or activities; and
    - (iii) Collect, classify, record or measure information in a timely and proper manner;
  - (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;
  - (e) Avoid undue influence of, or undue reliance on, individuals, organizations or technology; and
  - (f) Be aware of the risk of bias.

220.4 A1 An example of preparing or presenting the information in a manner that is intended to mislead others is deliberately giving a false impression in sustainability information about how well an organization or an investment is aligned with or achieving its sustainability goals, through practices such as:

- Omitting relevant information to misrepresent the nature and impacts of business activities.
- Including false information.
- Inappropriately applying or reporting metrics.
- Placing excessive emphasis on certain information while understating other information.

220.4 A2 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

220.4 A3 An example of placing undue reliance on an organization is using the data provided by a large supplier within the entity's value chain to prepare or present the entity's sustainability information, without considering the source, relevance and sufficiency of that supplier's data.

### **Use of Discretion in Preparing or Presenting Information**

**R220.5** Preparing or presenting information might require the exercise of discretion in making professional judgments. The professional accountant shall not exercise such discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

- 220.5 A1 Examples of ways in which discretion might be misused to achieve inappropriate outcomes include:
- Determining estimates, for example, determining fair value estimates in order to misrepresent profit or loss.
  - Selecting or changing an accounting policy or method among two or more alternatives permitted under the applicable financial reporting framework, for example, selecting a policy for accounting for long-term contracts in order to misrepresent profit or loss.
  - Selecting or changing measurement methods among two or more alternatives permitted under the applicable sustainability reporting framework in order to misrepresent information.

- Performing a materiality assessment on opportunities, risks or impacts in order to misrepresent or omit sustainability information.
- Determining the timing of transactions, for example, timing the sale of an asset near the end of the fiscal year in order to mislead.
- Determining the timing of disclosures of sustainability information to achieve a more favorable presentation or outcome in order to mislead.
- Determining the structuring of transactions, for example, structuring financing transactions in order to misrepresent assets and liabilities or classification of cash flows.
- Selecting disclosures, for example, omitting or obscuring information relating to financial, sustainability or operating risk in order to mislead.
- Preparing forward-looking information by relying on assumptions that are unrealistic or inconsistent with management's decisions or objectives in order to mislead.

**R220.6** When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the professional accountant shall exercise professional judgment to identify and consider:

- (a) The purpose for which the information is to be used;
- (b) The context within which it is given; and
- (c) The audience to whom it is addressed.

220.6 A1 For example, when preparing or presenting sustainability information or pro forma reports, budgets or forecasts, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.

220.6 A2 The professional accountant might also consider clarifying the intended audience, context and purpose of the information to be presented.

### Using the Work of Others

**R220.7** A professional accountant who intends to use the work of others, whether internal or external to the employing organization, or other organizations, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 For the purposes of this section, the work of others excludes the work of an external expert. When a professional accountant intends to use the work of an external expert, the requirements and application material set out in Section 290 apply.

220.7 A2 Factors to consider when a professional accountant intends to use the work of others include:

- The reputation and competence of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

### Using the Output of Technology

**R220.8** A professional accountant who intends to use the output of technology, whether that technology was developed internally or provided by third parties, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.8 A1 Factors to consider when a professional accountant intends to use the output of technology include:

- The nature of the activity to be performed by the technology.
- The expected use of, or extent of reliance on, the output of the technology.
- Whether the accountant has the ability, or has access to an expert with the ability, to understand, use and explain the technology and its appropriateness for the purpose intended.
- Whether the technology used has been appropriately tested and evaluated for the purpose intended.
- Prior experience with the technology and whether its use for specific purposes is generally accepted.
- The employing organization's oversight of the design, development, implementation, operation, maintenance, monitoring, updating or upgrading of the technology.
- The controls relating to the use of the technology, including procedures for authorizing user access to the technology and overseeing such use.
- The appropriateness of the inputs to the technology, including data and any related decisions, and decisions made by individuals in the course of using the technology.

### Addressing Information that Is or Might be Misleading

**R220.9** When the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.

220.9 A1 Actions that might be appropriate include:

- Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropriate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter. Such action might include:
  - Having the information corrected.
  - If the information has already been disclosed to the intended users, informing them of the correct information.
- Consulting the policies and procedures of the employing organization (for example, an ethics or whistle-blowing policy) regarding how to address such matters internally.

220.9 A2 The professional accountant might determine that the employing organization has not taken appropriate action. If the accountant continues to have reason to believe that the information is misleading, the following further actions might be appropriate provided that the accountant remains alert to the principle of confidentiality:

- Consulting with:
  - A relevant professional body.
  - The internal or external auditor or sustainability assurance practitioner of the employing organization.
  - Legal counsel.
- Determining whether any requirements exist to communicate to:
  - Third parties, including users of the information.
  - Regulatory and oversight authorities.

**R220.10** If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information.

220.10 A1 In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

#### **Documentation**

220.11 A1 The professional accountant is encouraged to document:

- The facts.
- The accounting or reporting principles or other relevant professional standards involved.
- The communications and parties with whom matters were discussed.
- The accountant's analysis, assumptions, courses of action considered, and judgments and decisions made in preparing or presenting the information.
- How the accountant attempted to address the matter(s).

#### **Other Considerations**

220.12 A1 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from a financial interest, including compensation and incentives linked to financial or non-financial, including sustainability, reporting and decision making, the requirements and application material set out in Section 240 apply.

220.12 A2 Where the misleading information might involve non-compliance with laws and regulations, the requirements and application material set out in Section 260 apply.

220.12 A3 Where threats to compliance with the fundamental principles relating to the preparation or presentation of information arise from pressure, the requirements and application material set out in Section 270 apply.

220.12 A4 When a professional accountant is considering using the work of others or the output of technology, a consideration is whether the accountant is in a position within the employing organization to obtain information in relation to the factors necessary to determine whether such use is appropriate.

## SECTION 240

### FINANCIAL INTERESTS, COMPENSATION AND INCENTIVES LINKED TO FINANCIAL OR NON-FINANCIAL REPORTING AND DECISION MAKING

(....)

#### Requirements and Application Material

##### General

**R240.3** A professional accountant shall not manipulate information or use confidential information for personal gain or for the financial gain of others.

240.3 A1 Professional accountants might have financial interests or might know of financial interests of immediate or close family members that, in certain circumstances, might create threats to compliance with the fundamental principles. Financial interests include those arising from compensation or incentive arrangements linked to financial or non-financial, including sustainability, reporting and decision making.

240.3 A2 Examples of circumstances that might create a self-interest threat include situations in which the professional accountant or an immediate or close family member:

- Has a motive and opportunity to manipulate price-sensitive information in order to gain financially.
- Holds a direct or indirect financial interest in the employing organization and the value of that financial interest might be directly affected by decisions made by the accountant.
- Is eligible for a bonus or incentive based on financial or non-financial performance goals and the value of that bonus or incentive might be directly affected by decisions made by the accountant.
- Holds, directly or indirectly, deferred bonus share rights or share options in the employing organization, the value of which might be affected by decisions made by the accountant.
- Participates in compensation arrangements which provide incentives to achieve targets or to support efforts to maximize the value of the employing organization's shares. An example of such an arrangement might be through participation in incentive plans which are linked to certain financial or non-financial performance conditions being met.

240.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- The significance of the financial interest. What constitutes a significant financial interest will depend on personal circumstances and the materiality of the financial interest to the individual.
- Policies and procedures for a committee independent of management to determine the level or form of senior management remuneration.
- In accordance with any internal policies, disclosure to those charged with governance of:
  - All relevant interests.
  - Any plans to exercise entitlements or trade in relevant shares.
- Internal and external audit procedures that are specific to address issues that give rise to the financial interest.



240.3 A4 Threats created by compensation or incentive arrangements might be compounded by explicit or implicit pressure from superiors or colleagues. See Section 270, *Pressure to Breach the Fundamental Principles*.

## SECTION 270

### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

#### Introduction

- 270.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 270.2 Pressure exerted on, or by, a professional accountant might create an intimidation or other threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

#### Requirements and Application Material

##### General

**R270.3** A professional accountant shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles;  
or
- (b) Place pressure on others that the accountant knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 A professional accountant might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organization, for example, from a colleague or superior.
- An external individual or organization such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a vendor to the professional accountant's employing organization to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
  - Pressure to report misleading financial or non-financial results to meet investor, analyst, lender or other stakeholder expectations.
  - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - Pressure to misrepresent, through labeling or otherwise, how certain programs, projects or products are aligned to or achieving sustainability goals.
  - Pressure from colleagues to misstate income, expenditure, rates of return or sustainability information to bias decision-making on capital projects and acquisitions.

- Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
- Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from superiors to inappropriately reduce the extent of work performed.
  - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.
  - Pressure from superiors to prepare sustainability information with insufficient data or deficiencies in the quality and accuracy of data available.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
  - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate financial or non-financial performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial or Non-Financial Reporting and Decision Making*.

- Pressure related to inducements:
  - Pressure from others, either internal or external to the employing organization, to offer inducements to influence inappropriately the judgment or decision making process of an individual or organization.
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - Pressure to structure a transaction to evade tax.
  - Pressure to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees:
  - Pressure exerted by a professional accountant on another professional accountant to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 330, *Fees and Other Types of Remuneration*

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.

- The application of laws, regulations, and professional standards to the circumstances.
- The culture and leadership of the employing organization including the extent to which they reflect or emphasize the importance of ethical behavior and the expectation that employees will act ethically. For example, a corporate culture that tolerates unethical behavior might increase the likelihood that the pressure would result in a threat to compliance with the fundamental principles.
- Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

270.3 A4 Discussing the circumstances creating the pressure and consulting with others about those circumstances might assist the professional accountant to evaluate the level of the threat. Such discussion and consultation, which requires being alert to the principle of confidentiality, might include:

- Discussing the matter with the individual who is exerting the pressure to seek to resolve it.
- Discussing the matter with the accountant's superior, if the superior is not the individual exerting the pressure.
- Escalating the matter within the employing organization, including when appropriate, explaining any consequential risks to the organization, for example with:
  - Higher levels of management.
  - Internal or external auditors or the sustainability assurance practitioner.
  - Those charged with governance.
- Disclosing the matter in line with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.
- Consulting with:
  - A colleague, superior, human resources personnel, or another professional accountant;
  - Relevant professional or regulatory bodies or industry associations; or
  - Legal counsel.

270.3 A5 An example of an action that might eliminate threats created by pressure is the professional accountant's request for a restructure of, or segregation of, certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure.

### **Documentation**

270.4 A1 The professional accountant is encouraged to document:

- The facts.
- The communications and parties with whom these matters were discussed.
- The courses of action considered.
- How the matter was addressed.

## **PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

(....)

#### **Requirements and Application Material**

##### **General**

**R300.4** A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

**R300.5** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.5 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

- Facing a conflict of interest when being responsible for selecting a vendor for the firm when an immediate family member of the accountant might benefit financially from the contract. The requirements and application material set out in Section 210 apply in these circumstances.
- Preparing or presenting financial or non-financial information, including sustainability information, for the accountant's client or firm. The requirements and application material set out in Section 220 apply in these circumstances.
- Being offered an inducement such as being regularly offered complimentary tickets to attend sporting events by a supplier of the firm. The requirements and application material set out in Section 250 apply in these circumstances.
- Facing pressure from an engagement partner to report chargeable hours inaccurately for a client engagement. The requirements and application material set out in Section 270 apply in these circumstances.

300.5 A2 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, accountants are expected to encourage and promote an ethics-based culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountant or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Firm processes and performance evaluation and reward criteria that promote an ethical culture.

- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

### Identifying Threats

300.6 A1 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. The categories of threats are described in paragraph 120.6 A3. The following are examples of facts and circumstances within each of those categories of threats that might create threats for a professional accountant when undertaking a professional service:

(a) Self-interest Threats

- A professional accountant having a direct financial interest in a client.
- A professional accountant quoting a low fee to obtain a new engagement and the fee is so low that it might be difficult to perform the professional service in accordance with applicable technical and professional standards for that price.
- A professional accountant having a close business relationship with a client.
- A professional accountant having access to confidential information that might be used for personal gain.
- A professional accountant discovering a significant error when evaluating the results of a previous professional service performed by a member of the accountant's firm.
- A professional accountant having incentives linked to the outcome of a professional service to prepare sustainability information.

(b) Self-review Threats

- A professional accountant issuing an assurance report on the effectiveness of the operation of financial systems after implementing the systems.
- A professional accountant having contributed to the preparation of the original data used to generate records that are the subject matter of the assurance engagement.

(c) Advocacy Threats

- A professional accountant promoting the interests of, or shares in, a client.
- A professional accountant acting as an advocate on behalf of a client in litigation or disputes with third parties.
- A professional accountant lobbying in favor of legislation on behalf of a client.
- A professional accountant promoting a particular sustainability-related initiative, product or service on behalf of a client.

(d) Familiarity Threats

- A professional accountant having a close or immediate family member who is a director or officer of the client.
- A director or officer of the client, or an employee in a position to exert significant influence over the subject matter of the engagement, having recently served as the engagement partner.

- An audit team member having a long association with the audit client.
  - An individual who is being considered to serve as an appropriate reviewer, as a safeguard to address a threat, having a close relationship with an individual who performed the work.
- (e) Intimidation Threats
- A professional accountant being threatened with dismissal from a client engagement or the firm because of a disagreement about a professional matter.
  - A professional accountant feeling pressured to agree with the judgment of a client because the client has more expertise on the matter in question.
  - A professional accountant being informed that a planned promotion will not occur unless the accountant agrees with an inappropriate accounting treatment or sustainability-related analysis.
  - A professional accountant having accepted a significant gift from a client and being threatened that acceptance of this gift will be made public.

*Identifying Threats Associated with the Use of Technology*

300.6 A2 The following are examples of facts and circumstances relating to the use of technology that might create threats for a professional accountant when undertaking a professional activity:

- Self-interest Threats
    - The data available might not be sufficient for the effective use of the technology.
    - The technology might not be appropriate for the purpose for which it is to be used.
    - The accountant might not have sufficient information and expertise, or access to an expert with sufficient understanding, to use and explain the technology and its appropriateness for the purpose intended.
- (Ref: Para. 230.2).
- Self-review Threats
    - The technology was designed or developed using the knowledge, expertise or judgment of the accountant or firm.

**Evaluating Threats**

(....)

*The Client and its Operating Environment*

(....)

300.7 A4 The corporate governance structure, including the leadership of a client might promote compliance with the fundamental principles. Accordingly, a professional accountant's evaluation of the level of a threat might also be impacted by a client's operating environment. For example:

- The client requires appropriate individuals other than management to ratify or approve the appointment of a firm to perform an engagement.

- The client has competent employees with experience and seniority to make managerial decisions.
- The client has implemented internal procedures that facilitate objective choices in tendering non-assurance engagements.
- The client has a corporate governance structure that provides appropriate oversight and communications regarding the firm's services.

300.7 A4a When preparing or presenting sustainability information, the professional accountant's evaluation of the level of a threat to compliance with the fundamental principles might be impacted by the quantitative and qualitative characteristics of a client's value chain. For example, a threat to compliance with the principle of professional competence and due care might be created if the sustainability information relevant to the service comes from multiple suppliers that are geographically dispersed or is prepared in accordance with different reporting frameworks.

#### *The Firm and its Operating Environment*

300.7 A5 A professional accountant's evaluation of the level of a threat might be impacted by the work environment within the accountant's firm and its operating environment. For example:

- Leadership of the firm that promotes compliance with the fundamental principles and establishes the expectation that assurance team members will act in the public interest.
- Policies or procedures for establishing and monitoring compliance with the fundamental principles by all personnel.
- Compensation, performance appraisal and disciplinary policies and procedures that promote compliance with the fundamental principles.
- Management of the reliance on revenue received from a single client.
- The engagement partner having authority within the firm for decisions concerning compliance with the fundamental principles, including any decisions about accepting or providing services to a client.
- Educational, training and experience requirements.
- Processes to facilitate and address internal and external concerns or complaints.

(....)

#### **Communicating with Those Charged with Governance**

**R300.9** When communicating with those charged with governance in accordance with the Code, a professional accountant shall determine the appropriate individual(s) within the entity's governance structure with whom to communicate. If the accountant communicates with a subgroup of those charged with governance, the accountant shall determine whether communication with all of those charged with governance is also necessary so that they are adequately informed.

300.9 A1 In determining with whom to communicate, a professional accountant might consider:

- (a) The nature and importance of the circumstances; and
- (b) The matter to be communicated.

300.9 A2 Examples of a subgroup of those charged with governance include an audit committee, another



committee tasked with oversight of sustainability information, or an individual member of those charged with governance.

**R300.10** If a professional accountant communicates with individuals who have management responsibilities as well as governance responsibilities, the accountant shall be satisfied that communication with those individuals adequately informs all of those in a governance role with whom the accountant would otherwise communicate.

300.10 A1 In some circumstances, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters are communicated to individual(s) with management responsibilities, and those individual(s) also have governance responsibilities, the professional accountant has satisfied the requirement to communicate with those charged with governance.

## SECTION 310

### CONFLICTS OF INTEREST

(....)

#### Requirements and Application Material

##### General

**R310.4** A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.4 A1 Examples of circumstances that might create a conflict of interest include:

- Providing a transaction advisory service to a client seeking to acquire an audit client, where the firm has obtained confidential information during the course of the audit that might be relevant to the transaction.
- Providing advice to two clients at the same time where the clients are competing to acquire the same company and the advice might be relevant to the parties' competitive positions.
- Providing services to a seller and a buyer in relation to the same transaction.
- Preparing valuations of assets for two parties who are in an adversarial position with respect to the assets.
- Representing two clients in the same matter who are in a legal dispute with each other, such as during divorce proceedings, or the dissolution of a partnership.
- In relation to a license agreement, providing an assurance report for a licensor on the royalties due while advising the licensee on the amounts payable.
- Advising a client to invest in a business in which, for example, the spouse of the professional accountant has a financial interest.
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a major competitor of the client.
- Advising a client on acquiring a business which the firm is also interested in acquiring.
- Advising a client on buying a product or service while having a royalty or commission agreement with a potential seller of that product or service.
- Preparing or presenting sustainability information for a client while also being in a leadership position at a sustainability advocacy group that publicly challenges the client's sustainability targets or practices.

#### Conflict Identification

##### General

(....)

## SECTION 320

### PROFESSIONAL APPOINTMENTS

(....)

#### Requirements and Application Material

##### Client and Engagement Acceptance

###### *General*

- 320.3 A1 Threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial or non-financial, including sustainability, reporting practices or other unethical behavior.
- 320.3 A2 Factors that are relevant in evaluating the level of such a threat include:
- Knowledge and understanding of the client, its owners, management and those charged with governance and business activities.
  - The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.
- 320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the team does not possess, or cannot acquire, the competencies to perform the professional services.
- 320.3 A4 Factors that are relevant in evaluating the level of such a threat include:
- An appropriate understanding of:
    - The nature of the client's business;
    - The complexity of its operations;
    - The quantitative and qualitative characteristics of the client's value chain, where applicable;
    - The requirements of the engagement; and
    - The purpose, nature and scope of the work to be performed.
  - Knowledge of relevant industries or subject matter.
  - Experience with relevant regulatory or reporting requirements.
  - Policies and procedures that the firm has implemented, as part of a system of quality management in accordance with quality management standards such as ISQM 1, that respond to quality risks relating to the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
  - The level of fees and the extent to which they have regard to the resources required, taking into account the professional accountant's commercial and market priorities.
- 320.3 A5 Examples of actions that might be safeguards to address a self-interest threat include:
- Assigning sufficient engagement personnel with the necessary competencies.

- Agreeing on a realistic time frame for the performance of the engagement.
- Using experts where necessary.

(....)

### **Client and Engagement Continuance**

**R320.9** For a recurring client engagement, a professional accountant shall periodically review whether to continue with the engagement.

320.9 A1 Potential threats to compliance with the fundamental principles might be created after acceptance which, had they been known earlier, would have caused the professional accountant to decline the engagement. For example, a self-interest threat to compliance with the principle of integrity might be created by improper earnings management, balance sheet valuations or sustainability materiality assessments.

### **Using the Output of Technology**

(....)

## **SECTION 330**

### **FEES AND OTHER TYPES OF REMUNERATION**

(....)

#### **Contingent Fees**

330.4 A1 Contingent fees are used for certain types of non-assurance services. However, contingent fees might create threats to compliance with the fundamental principles, particularly a self-interest threat to compliance with the principle of objectivity, in certain circumstances.

330.4 A2 Factors that are relevant in evaluating the level of such threats include:

- The nature of the engagement.
- The range of possible fee amounts.
- The basis or metrics for determining the fee.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality management policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.4 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the professional accountant.
- Obtaining an advance written agreement with the client on the basis of remuneration.

(....)

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**Explanatory Memorandum**  
**January 2024**  
***Comments due: May 10, 2024***

*International Ethics Standards Board  
for Accountants®*

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

*This Explanatory Memorandum is intended to be read with the separate Exposure Draft of the Proposed IESSA and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*

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## About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#) (IFEA). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

The structures and processes that support the operations of the IESBA are facilitated by the International Foundation for Ethics and Audit™ (IFEATM).

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## REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read with, the Exposure Draft of [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#) which was developed and approved by the IESBA.

The proposals in the ED may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **May 10, 2024**. Note that requests for extensions of time cannot be accommodated due to the accelerated timeline for finalization of the proposed standards.

Respondents are asked to submit their comments electronically through the IESBA website, using the “[Submit a Comment](#)” link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

*Recognizing that the IESBA utilizes software to support its analysis of comments received from respondents to public consultations, you can assist the IESBA’s review of the responses by bearing the following in mind in preparing your submission:*

- Respond directly to the questions formulated and provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements or application material. If you agree with the proposals, it will be helpful for the IESBA to be made aware of this view.
- You may respond to all questions or only those questions for which you have specific comments.
- When formulating your responses to a question, it is most helpful to identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
- Avoid inserting tables or text boxes when providing your responses to the questions.

This EM and the accompanying ED may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

**PROPOSED IESSA AND OTHER REVISIONS TO THE CODE RELATING TO SUSTAINABILITY ASSURANCE AND REPORTING**

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## I. INTRODUCTION

1. This memorandum provides background to, and an explanation of, the additions and proposed revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) relating to sustainability assurance and reporting. These proposed changes, including the proposed *International Ethics Standards for Sustainability Assurance (including International Independence Standards)* (IESSA) in a new Part 5 of the Code, are set out in the ED. The mark-up and clean versions of the ED are contained in two separate documents.
2. The ED is composed of the following Chapters:
  - Chapter 1: Proposed IESSA (New Part 5)
  - Chapter 2: Proposed Revised Glossary
  - Chapter 3: Proposed Consequential and Conforming Amendments Resulting from IESSA
  - Chapter 4: Proposed Revisions to Parts 1 to 3 of the Extant Code to Reflect Sustainability Reporting Considerations for Professional Accountants
3. The IESBA approved these proposed changes for exposure at its [December 2023](#) meeting.

### A. Background

4. In recent years, there has been a sharp rise in market and public demand for sustainability information such as in relation to environmental, social and governance (ESG) matters. Such information is increasingly used to support not only capital allocation by investors, but also other decisions by customers, current or potential employees, government agencies and other stakeholders. As demand for sustainability information continues to expand rapidly not only in relation to environmental matters but also in relation to social and governance matters, there is a pressing public interest need to ensure that such information is trustworthy and comparable, and therefore capable of being subject to assurance. Governments and regulators in a number of major jurisdictions have also prioritized the development of new legislation and regulations governing sustainability reporting and assurance.
5. In response to these rapid developments, the IESBA [publicly committed](#) to developing, as a new strategic priority, global ethics (including independence) standards as part of the regulatory infrastructure (see diagram below) that supports transparent, relevant and trustworthy sustainability reporting. The IESBA began its information gathering in early 2022, including actively engaging in outreach to collect views and insights from a wide range of stakeholders. To highlight the relevance of the extant Code in addressing ethics issues relating to “greenwashing,” the IESBA released in October 2022 a [Staff publication](#) highlighting the relevance and applicability of the Code in combatting greenwashing.

## Sustainability Reporting and Assurance



6. In September 2022, the International Organization of Securities Commissions (IOSCO) publicly recognized the work of both the IESBA and the International Auditing and Assurance Standards Board (IAASB) as important in meeting the need for robust standards applicable to all practitioners of sustainability assurance to foster independent, high-quality engagements and consistent practices.<sup>1</sup> In particular, IOSCO welcomed the two Boards' plans to develop high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support limited and reasonable assurance of sustainability information. In addition, in its final report *Supervisory and Regulatory Approaches to Climate-related Risks*, the Financial Stability Board (FSB) also singled out the work of the IESBA and IAASB as relevant to the development of third-party assurance of climate-related public disclosures by corporates.<sup>2</sup>
7. In December 2022, the IESBA approved a project proposal to develop ethics (including independence) standards for sustainability assurance and reporting, allocating the necessary resources so that the key deliverables can be produced within an ambitious timeline.

### B. Sustainability Project

#### **Project Proposal**

8. In December 2022, the IESBA approved two related project proposals. With respect to sustainability reporting and assurance, the IESBA approved a [project proposal](#) with the objectives to develop:
  - (a) Revisions to the Code<sup>3</sup> to address the ethics issues that might arise in sustainability reporting; and
  - (b) Ethics and independence standards for use and implementation by all sustainability assurance

<sup>1</sup> In September 2022, IOSCO issued a [statement of support](#) for the work of the IESBA and IAASB to develop profession-agnostic global standards to support assurance of sustainability information.

<sup>2</sup> In its [2023 Progress Report on Climate-Related Disclosures](#), the FSB continued to highlight the need for a global assurance, ethics and independence framework for sustainability disclosures and expressed support for both Boards' standard-setting work in this regard.

<sup>3</sup> For purposes of the ED, the reference to the extant Code is to the draft 2024 edition of the IESBA Handbook, which includes the most recent IESBA-approved revisions.

practitioners (i.e., professional accountants (PAs), conformity assessment bodies, and other practitioners performing sustainability assurance engagements).

9. In the same December 2022 meeting, the IESBA also approved a [project proposal](#) relating to the use of experts by PAs as well as all sustainability assurance practitioners. For more information about the IESBA's Use of Experts project, please visit its [webpage](#).

### **Public Interest Framework**

10. The IESBA took into account the Public Interest Framework published by the Monitoring Group in July 2020<sup>4</sup> when approving the Sustainability project proposal. The IESBA has also applied the Public Interest Framework's qualitative standard-setting characteristics when developing the proposed revisions to the Code. See also paragraph 23 below.

### **C. Coordination with the IAASB**

11. As highlighted above, the IAASB is also undertaking a [sustainability project](#) to develop a new overarching standard for assurance on sustainability reporting that is:
  - (a) Responsive to the public interest need for a timely standard that supports the consistent performance of quality sustainability assurance engagements;
  - (b) Suitable across all sustainability topics, information disclosed about those topics, and reporting frameworks; and
  - (c) Implementable by all assurance practitioners.
12. In August 2023, the IAASB released its proposed ISSA 5000<sup>5</sup> for public consultation. The comment period closed on December 1, 2023, and the IAASB aims to issue the final standard by the end of 2024.
13. In undertaking this project, the IESBA has engaged closely with the IAASB to address matters of mutual interest in order to ensure that the IESBA's final sustainability-related standards will be consistent and interoperable with the proposed ISSA 5000. Such matters include definitions of terms such as "sustainability information," using the work of another practitioner, sustainability assurance engagements in a group context, and the concept of value chain.

### **D. Sustainability Reference Group**

14. The IESBA engaged with sustainability reporting and assurance experts through its [Sustainability Reference Group](#) established in June 2023. The Sustainability Reference Group members are predominantly from professions other than accounting and audit, and were selected based on a series of criteria, including their background, experience in sustainability reporting or assurance, diversity of stakeholder groups, and geographical location.
15. The Sustainability Reference Group has acted as a "sounding board" to the IESBA's Sustainability Task Force through quarterly meetings and written feedback to provide insights, expertise and advice relating to the development of the global ethics (including independence) standards for sustainability

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<sup>4</sup> See the Monitoring Group report, [Strengthening the International Audit and Ethics Standard-Setting System](#) (pages 22–23 of the Public Interest Framework's section on "What qualitative characteristics should the standards exhibit?").

<sup>5</sup> Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

reporting and assurance.

## **E. Stakeholder Engagement**

### ***Stakeholder Outreach***

16. The IESBA has engaged in extensive outreach activities with key stakeholders prior to and during the project, including with:
- The IESBA Consultative Advisory Group (CAG).
  - Monitoring Group members, including IOSCO, the International Forum of Independent Audit Regulators (IFIAR), the European Commission (EC), the FSB and the World Bank.
  - Regional and national regulatory bodies, such as the Committee of European Auditing Oversight Bodies (CEAOB), United States Securities and Exchange Commission (SEC), and the Japan Financial Services Agency (JFSA).
  - International standard setters for sustainability reporting and assurance, such as the International Sustainability Standards Board (ISSB) and the International Organization for Standardization (ISO).
  - National standard setters (NSS).
  - Representatives of the accountancy profession, such as the International Federation of Accountants (IFAC) and its Small and Medium Practices (SMP) and Professional Accountants in Business (PAIB) Advisory Groups, the Forum of Firms (FoF), and professional accountancy organizations (PAOs).
  - Other international groups such as the International Accreditation Forum (IAF).
  - Sustainability information preparers, sustainability assurance practitioners, those charged with governance (TCWG), and user and investor groups.

### ***Global Sustainability Roundtables***

17. Given the importance and global scope of the Sustainability project, the IESBA conducted four global sustainability roundtables in March-April 2023 to inform its strategic direction on a range of key issues.<sup>6</sup> These roundtables, held in Paris, Sydney, Singapore and New York, were attended by over 140 senior-level participants representing over 80 different organizations from a wide range of stakeholder groups,<sup>7</sup> including non-PAs.

## **II. SUSTAINABILITY ASSURANCE**

This Section covers Chapters 1 to 3 of the ED and questions 1 to 19.

### **A. Main Objectives of the IESSA**

18. The IESBA agreed to develop the IESSA under a new Part 5 of the Code. Following extensive

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<sup>6</sup> Refer to [Agenda Item 2-A](#) of the June 2023 IESBA meeting for the summary of the feedback received from the roundtable participants.

<sup>7</sup> Stakeholder groups represented included: Regulators, Users/Investors, Preparers/TCWG, International and National Standard Setters, Sustainability Assurance Practitioners (Accounting Firms and Others), PAOs, and Academics.

deliberation, the IESBA concluded that this option<sup>8</sup> would best achieve the main objectives of the Sustainability project, having regard to the requirements of the Public Interest Framework, including that the new standards are comprehensive, scalable, clear, implementable, globally operable and enforceable for all sustainability assurance practitioners.

### ***Equivalence to Audits***

19. Recognizing the public interest in sustainability information that meets certain criteria, including sustainability information that is prepared in accordance with a general purpose framework and is publicly disclosed, the IESBA holds to the premise that sustainability assurance engagements on such information must be underpinned by the same high standards of ethical behavior and independence that apply to audits of financial information.<sup>9</sup> With that in mind, the proposed IESSA is equivalent to Parts 1 to 4A of the Code, with certain exceptions as explained in paragraphs 4545 to 5050 below. Please refer to question 1(a).
20. The provisions in the proposed IESSA are drafted using the same language as for the ethics (including independence) provisions that apply to audits of financial statements, with terminologies amended only where necessary to be clear as to the application of the provisions with respect to sustainability. This is to maintain the equivalence of the provisions between the sustainability assurance engagements and audit engagements, and to minimize regulatory arbitrage issues such as courts interpreting differences in meaning when none was intended (i.e., there should be only a “single version of the truth”).

### ***Profession-Agnostic Standards***

21. Further to the IOSCO statement mentioned in paragraph 66 above, the IESBA agreed to develop profession-agnostic global ethics (including independence) standards for sustainability assurance engagements. This means that the IESSA should be capable of being understood and applied by all practitioners of sustainability assurance engagements, including those who are not PAs. The IESBA agreed that profession-agnostic standards best serve the public interest, given that there are different types of practitioners currently performing sustainability assurance engagements and that, in a number of jurisdictions, they are mostly not PAs. With this in mind, the IESBA developed the proposed IESSA using terminology that it intends to be understandable by all sustainability assurance practitioners. Please refer to question 1(b).

### ***Framework-Neutral Standards***

22. To align with the Code’s current approach, the IESBA has developed the ethics (including independence) standards in the proposed IESSA in a framework-neutral way so that they can underpin any reporting or assurance framework used to prepare or assure the sustainability information. Nevertheless, in developing the IESSA, the IESBA considered the global sustainability reporting and assurance standards developed by ISSB and IAASB, respectively, with a view to ensuring that the IESSA will be interoperable with those standards. Please refer to question 1(b).

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<sup>8</sup> The other two options considered by the IESBA were having a single set of ethics (including independence) standards applicable to audits and sustainability assurance engagements in the extant Code, and having the new ethics (including independence) standards in a separate Code.

<sup>9</sup> This approach is consistent with the position taken by regulators in some major jurisdictions, such as the European Union (EU) and the United States (US).



## **Public Interest Framework**

23. The IESBA is of the view that the IESSA is responsive to the public interest considering the Public Interest Framework characteristics (please refer to question 2), in particular:

- *Coherence* with the overall body of the IESBA's standards, recognizing that the extant Code already encapsulates a robust set of standards that sets expectations for, and guides, ethical behavior with respect to the provision of audit, review and other assurance services. As such, the extant Code was used as a baseline for developing the ethics (including independence) requirements and application material in the proposed Part 5.
- *Clarity and conciseness* of the standards, by using the Code's structure and drafting conventions for clarity, understandability and usability. The proposed IESSA follows the same building blocks approach in the extant Code – i.e., starting with the fundamental principles and the conceptual framework as the foundations of the new ethics (including independence) standards for sustainability assurance.

To ensure that the IESSA is applied in the same way as the extant Code in order to achieve equivalence, the language and terminologies used in Part 5 are as much as possible identical to those used in the extant Code, with the exception of the necessary adaptations to meet the objective of profession-agnostic standards and to include sustainability-related examples in the application material.

- *Implementability and enforceability*, by adopting an identical structure to the extant Code, with a clear distinction between requirements and application material. Further, making the proposed IESSA part of the Code will avoid the issue raised by some stakeholders about the lengthy legal process of adopting a new standalone standard or Code for sustainability assurance in some jurisdictions.

## **B. Significant Matters**

### **Definition of Sustainability Information**

24. The IESBA agreed to include a proposed definition for a new term, "sustainability information," applicable to both sustainability assurance and sustainability reporting, in the Glossary to the Code. This proposed definition determines what type of information is relevant for the purposes of applying the IESSA and the standards in Parts 1 to 3 of the extant Code regarding sustainability reporting.

25. Although cognizant of the fact that standards<sup>10</sup> developed or being developed by other recognized standard setters use identical or similar terms (defined or not), the IESBA sees merit in having a specific and defined term for purposes of the ethics (including independence) standards for the following reasons:

- The proposed IESBA standards cover the collection, classification, recording, measurement, maintenance and approval of sustainability information (under proposed revised Parts 1 to 3 of the Code); the preparation or presentation of that information in the form of sustainability reports, statements or other disclosures (also under proposed revised Parts 1 to 3 of the Code); and the issue of an opinion on those disclosures (under new Part 5 of the Code).

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<sup>10</sup> For example, standards developed or being developed by the IAASB, the ISSB, the Global Reporting Initiative (GRI), and the European Financial Reporting Advisory Group (EFRAG)

- Other terms were considered, but “sustainability information” was deemed more aligned with the Public Interest Framework characteristics,<sup>11</sup> considering its parallels with the extant “historical financial information.”
  - If not defined, there is a risk that the IESBA standards would be inconsistently applied due to potentially arbitrary, misconstrued or too narrow interpretations of the term. Having a definition serves a clarifying and educative purpose, thus contributing to the *clarity, implementability* and *enforceability* of IESBA standards as required by the Public Interest Framework.
26. The IESBA’s 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). It has two parts:
- The first part is the defined term with two components. Subparagraph (a) consists of a broad definition of sustainability information. It includes a reference to the ESG factors but is not limited to them as the IESBA recognizes that additional factors<sup>12</sup> such as economic ones may also be relevant for the sustainability information disclosed by companies. The reference to “other” factors is intended to keep the definition flexible and thus evergreen. Moreover, it is broad enough to cover disclosures made under both single and double materiality perspectives.  
  
Subparagraph (b) scopes in terms and definitions used in local or regional laws or regulations or by other standard setters. Regardless of how “sustainability information” is defined therein or whether a different term is used, it will be deemed to be “sustainability information” for the purposes of applying the IESBA standards. In particular, the proposed terms and definitions used in the ISSA 5000 ED (“sustainability information” and “sustainability matters”)<sup>13</sup> are scoped into the IESBA’s definition through this subparagraph (b), making the necessary alignment between the two Boards’ proposed terms.
  - The second part (in *italics*) provides further explanation to the defined term by including a non-exhaustive list of what may be considered to be sustainability information. It recognizes, among other things, the specificities of sustainability information and that it can be derived from the entity or third parties in the value chain.
27. Please refer to question 3.

### ***Applicability and Scope of IESSA***

#### Sustainability Assurance Engagements

28. The proposed Part 5 of the Code applies when a sustainability assurance practitioner performs a sustainability assurance engagement, as defined in the proposed revisions to the Glossary of the

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<sup>11</sup> Particularly for the *consistency, clarity* and *conciseness* of the IESBA standards and consequently their *implementability* and *enforceability*. Such a term also defines the *appropriate scope* for the IESBA standards, as required by the Public Interest Framework, since the standards need to adequately cover both reporting and assurance activities.

<sup>12</sup> A specific reference to “cultural” factors was not included because the IESBA considered it to be a part of (and thus already included in) the “social” factor.

<sup>13</sup> Although aligned in substance, the terms/definitions used in the IESBA and IAASB proposed standards are not identical. This is because of the different scopes of the two Board’s projects and standards. “Sustainability information” is used in the proposed IESBA standards for both sustainability reporting and sustainability assurance, while the proposed ISSA 5000 focuses on sustainability assurance only. Therefore, the IESBA determined that its definition needs to be sufficiently broad and should not reflect assurance-specific language.

Code. The definition of “sustainability assurance engagement” clarifies that the Code applies only to engagements designed to enhance the degree of confidence of the intended users about the sustainability information but not to certification engagements that are designed to confirm compliance with the specifications set out in relevant certification standards. (See proposed revised Glossary to the Code in Chapter 2.)

29. Part 5 sets out the same provisions for sustainability assurance engagements that fall within its scope irrespective of whether the engagement is a limited assurance or reasonable assurance engagement. The distinction between a limited assurance engagement and a reasonable assurance engagement is consistent with the definition of an assurance engagement in accordance with the IAASB’s proposed ISSA 5000. (See proposed revised Glossary to the Code in Chapter 2.)

#### Scope of Ethics Standards in the Proposed IESSA

30. The objective of the Sustainability project is to develop ethics (including independence) standards for sustainability assurance engagements that are equivalent to those that apply to audits of financial statements. As such, the starting point for this project was the extant Code, where the relevant ethics standards are set out in Parts 1 and 3 and the applicable independence requirements in Part 4A.

31. Currently, the extant Code applies to one cohort of practitioners (PAs) that can perform different types of activities or services. However, the IESBA has committed under the Sustainability project to issue profession-agnostic standards that can be used by different groups of practitioners (coming from different professions or fields) performing the same type of engagements – sustainability assurance engagements. This paradigm shift led the IESBA to consider three options for the scope of the ethics standards in the proposed IESSA, from the narrowest to the broadest:

- The narrowest option would focus strictly on the scope of the project (sustainability assurance) and the purpose of the project (to develop standards that are equivalent to those applying to audits of financial statements). It would entail developing ethics standards solely for sustainability assurance engagements that are subject to the independence requirements in Part 5 (see the criteria mentioned in paragraph 3939 below).
- At the other end of the spectrum, the broadest option would mean adopting the same scope as the extant Code, which would entail developing ethics standards for all activities and services provided by sustainability assurance practitioners to any of their clients.
- A middle ground option is to develop ethics standards for all sustainability assurance engagements and any other services that the practitioner provides to the same sustainability assurance client.

32. The IESBA proposes to adopt the middle ground option for the scope of the ethics standards in the IESSA as a balanced approach, having regard to the public interest considerations at hand. Sustainability information disclosed by companies is used by a wide range of stakeholders to assess and compare companies’ performances and to make investment, business or other decisions. Hence, given the level of public reliance placed on those disclosures, those performing the sustainability assurance engagements should follow the most stringent ethics requirements. However, adhering to the highest standards of ethical behavior only when performing the sustainability assurance engagement for the client might not sufficiently safeguard stakeholder confidence and the public interest at large. The IESBA, therefore, 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. (See paragraph 5100.2(a) in Chapter 1.)

33. The broadest option would go beyond the scope of the project, potentially raising questions about the basis for the IESBA to set standards to cover all the activities performed, and services provided by, any sustainability assurance practitioner outside the accountancy profession.
34. The IESBA was of the view that the middle ground option best aligns with the Public Interest Framework's qualitative characteristics, including:
- *Consistency* with the priorities and scope of the Sustainability project. This option centers on a sustainability assurance service but recognizes that the public interest underpinning such a service may extend to other situations with the same client.
  - Appropriate *coherence* with the extant Code. While the Code applies to a certain profession and thus to all professional activities, services and relationships of members of that profession (i.e., PAs), the scope of the Sustainability project focuses on a certain service that can be provided by practitioners from different professions or fields. This option is a balanced middle ground focusing on the practitioners performing sustainability assurance engagements and any other services for the same client.
  - Ensuring an *appropriate scope* and *relevance* of the ethics standards, as they adequately serve the public interest underpinning sustainability disclosures and their assurance.
35. The IESBA also agreed that the ethics standards in the new Part 5 of the Code should cover all sustainability assurance engagements irrespective of whether they are within the scope of independence standards in Part 5 (see paragraph 5100.2(a) in Chapter 1). This is because the objective of the Sustainability project is to develop "*ethics and independence standards for use by all assurance practitioners in sustainability assurance engagements.*" This follows the same approach in the extant Code where there is only one set of ethics standards for PAs in public practice (PAPPs) (Parts 1 and 3 of the extant Code), irrespective of the type of services provided.
36. In addition, the IESBA recognizes that having high ethics standards that address circumstances outside the scope of the ethics standards in Part 5, such as services provided by a sustainability assurance practitioner to other clients, is also important because other aspects of the conduct of a practitioner may contribute to (or impair) the credibility of, and public trust in, the practitioner's sustainability assurance work. Thus, the proposed IESSA:
- Reminds ***practitioners who are PAs*** that Parts 1 to 4B of the Code apply in all situations not covered by Part 5 – see paragraph 5100.2b(a) in Chapter 1.<sup>14</sup>
  - Encourages ***practitioners who are not PAs*** to apply Parts 1 to 4B of the Code in all situations not covered by Part 5 – see paragraph 5100.2b(b) in Chapter 1 which includes examples of situations not covered by the IESSA, such as aspects of the relationships between the practitioner and other clients, and the practitioner and the firm.
- In complying with Parts 1 to 4B, the practitioners who are not PAs derive the benefit of public trust – which is first and foremost tied to the performance of sustainability assurance engagements – in their work and business relationships.
37. Please refer to question 4.

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<sup>14</sup> As part of this project, the Guide to the Code (located at the beginning of the Code) will also be updated so that users are clear about which Parts to follow for a given service or situation.

## Scope of Independence Standards in the Proposed IESSA

38. Since sustainability assurance engagements can be very diverse in nature, scope and purposes, the IESBA believes that, as a first step, the independence standards in Part 5 should focus on sustainability assurance engagements with the same level of public interest as audits of financial statements. Please refer to question 5.
39. Accordingly, the IESBA proposes that the *International Independence Standards* (IIS) in Part 5 apply to a sustainability assurance engagement where the sustainability information on which the sustainability assurance practitioner expresses an opinion:
- (a) Is reported in accordance with a general purpose framework (as defined in the proposed revised Glossary); and
  - (b) Is required to be provided in accordance with law or regulation; or is publicly disclosed to support decision-making by investors or other stakeholders.
- (See paragraph 5400.3a in Chapter 1.)
40. The IESBA also proposes that the IIS in Part 5 apply only to attestation engagements (where a party other than the sustainability assurance practitioner measures or evaluates the underlying subject matter against the criteria) and not to direct engagements (where the sustainability assurance practitioner also measures or evaluates the underlying subject matter against the applicable criteria).<sup>15, 16</sup> (See paragraph 5400.3d in Chapter 1.)
41. Where the sustainability assurance practitioner is a PA, Part 4B of the extant Code sets out independence standards for other sustainability assurance engagements<sup>17</sup> that are not within the scope of the IIS in Part 5 (see paragraph 5400.3e in Chapter 1). This approach is in line with the extant Code, which specifies for PAs different independence standards for audit and review engagements (Part 4A) and for other assurance engagements (Part 4B).
42. Although Part 4B is currently applicable to PAs only, as mentioned above, other sustainability assurance practitioners are also encouraged to comply with its provisions when performing other sustainability assurance engagements outside of the scope of the IIS in the proposed IESSA. As part of its Strategy and Work Plan 2024-2027 (SWP), the IESBA will consider how the Code might be enhanced, whether through revision of the extant Part 4B or the development of a Part 4B equivalent in the new Part 5, to ensure that all independence standards for sustainability assurance engagements are addressed in the Code in a profession-agnostic manner.<sup>18</sup>
43. The IESBA proposes conforming amendments to Part 4A and Part 4B of the Code to clarify their scope, having regard to the new IIS in Part 5. (See paragraphs 400.17 and 900.1 in Chapter 3.)
44. See the diagrams in Appendix 1 for the inter-relationship between ethics and independence standards for sustainability assurance practitioners (PAs and non-PAs).

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<sup>15</sup> The Glossary of the extant Code defines attestation and direct engagements.

<sup>16</sup> Part 5 makes references to a firm expressing an opinion on the sustainability information in the context of a reasonable assurance sustainability assurance engagement. In the context of a limited assurance engagement, those references mean a firm expressing a conclusion on the sustainability information.

<sup>17</sup> Paragraph 5400.3e provides examples to sustainability assurance engagements that are not within the scope of the IIS in Part 5.

<sup>18</sup> The new SWP for 2024-2027 was approved by the IESBA in December 2023 (see [Agenda Item 2-H.1](#) of the December 2023 IESBA meeting). Subject to PIOB approval of due process, the SWP is expected to be released in April 2024.

## Structure of the Proposed IESSA

45. For equivalence purposes, the starting point for the Sustainability project was the extant Code, in which the ethics standards applying to audits of financial statements are set out in Parts 1 and 3 and the applicable independence requirements in Part 4A.
46. The standards in Part 2 of the extant Code were not replicated in Part 5 (apart from Section 270, as explained below), since Part 2 applies to PAs in business, who do not perform audits of financial statements.
47. In certain circumstances, Part 2 can also apply to PAs performing audits of financial statements. That is the case when an ethics issue arises in the context of their relationship with the firm.<sup>19</sup> However, the development of standards for the performance of sustainability assurance engagements covers, by nature, the relationship between the practitioner and the client, not between the practitioner and their firm. Hence, except for Section 270, there is no need to develop equivalent standards to those in extant Part 2 for purposes of the IESSA.
48. The IESBA agreed to include in the proposed IESSA a set of provisions drawn from one section in Part 2 – Section 270, *Pressure to Breach the Fundamental Principles*. (See Section 5270 in Chapter 1.) The IESBA considered it important to include this Section in the new Part 5 because pressure to breach the fundamental principles,<sup>20</sup> which might arise in different situations and is not explicitly covered by the Part 1 equivalent standards in the IESSA, might compromise the performance of sustainability assurance engagements and consequently impair the public trust in it. Please refer to question 6.
49. Part 5 includes the equivalent Standards drawn from Part 3 of the extant Code except extant Section 321, *Second Opinions*, due to the topic of second opinions being outside the proposed scope of IESSA. As mentioned above, the proposed ethics standards in Part 5 apply to sustainability assurance engagements and any other services that a sustainability assurance practitioner performs for the same sustainability assurance client. Therefore, this assumes there is a client, i.e., the sustainability assurance client. However, extant Section 321 applies when a PA provides a second opinion to an entity that is not an existing client (see paragraph 321.2 of the extant Code).
50. If the practitioner is a PA, then extant Section 321 applies. Practitioners who are not PAs are encouraged to use the remainder of the Code (thus including Section 321) whenever their professional activities or professional and business relationships do not fall under Part 5 – see the specific example about second opinions in paragraph 5100.2b(b)(v) in Chapter 1.
51. The proposed IESSA further provides that if a sustainability assurance practitioner performs a sustainability assurance engagement within the scope of Part 5, the firm needs to apply the requirements and application material in Part 5 (see paragraph 5100.2 in Chapter 1), irrespective of whether the practitioner is a PA and provides other engagements to the client, such as audit of the financial statements. However, if the practitioner performs both engagements for the same client, the provisions in Parts 1 to 4A in the Code applicable to an audit also apply. (See paragraph 5400.16a in Chapter 1.)
52. Where the firm is subject to both Parts 1 to 4A and Part 5, this does not mean that the firm needs to apply the conceptual framework to separately identify, evaluate and address threats to independence

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<sup>19</sup> Part 2 of the Code is applicable to PAPPs via the “applicability provisions” – see paragraphs 120.4, R300.5, and 300.5 A1 of the extant Code.

<sup>20</sup> This is regardless of whether the pressure originates from the client, within the firm, or other sources.

in relation to each engagement. Taking into account laws and regulations of the relevant jurisdiction, it is an operational matter for firms performing both the audit and sustainability assurance engagement to determine how to comply with the corresponding requirements in Parts 1 to 4A and Part 5, within their systems of quality management. In most cases, complying with a requirement in Parts 1 to 4A will achieve compliance with the corresponding requirement in Part 5, and vice versa.

53. However, where applicable, Part 5 will address specific situations where additional independence considerations arise from the auditor also providing sustainability assurance services to the client, such as considerations relating to:
  - The proportion of fees for services other than audit and sustainability assurance engagements to the audit or sustainability assurance fee.
  - The cooling-off period if an individual has acted as an engagement leader and a key audit partner for the same client.
  - The provision of accounting and bookkeeping services and sustainability data and information services to audit and sustainability assurance clients.
54. The numbering in the IESSA follows a 5000 sequence because the new standards are under Part 5 of the Code. To facilitate an equivalence verification, the numbering of the standards in Part 5 follows the numbering used in Parts 1 to 4A with a “5” added in front.
55. See the diagram in Appendix 2 that illustrates the proposed structure for the Code, including the extant Parts 1 to 4A/4B and the new Part 5.

### ***Responding to Non-Compliance with Laws and Regulations™ (NOCLAR®)***

Sustainability Assurance Practitioners (IESSA) and Auditors (extant Part 3 of the Code)

56. The proposed Section 5360 deals with NOCLAR. Similar to extant Section 360, the scope of this section in the IESSA is centered on (actual or suspected) non-compliance with laws and regulations that the practitioner becomes aware of in the course of providing services to the sustainability assurance client. (See paragraph 5360.3 in Chapter 1.)
57. Section 5360 only applies to NOCLAR committed by the parties listed in paragraph 5360.5 A1 such as TCWG and management of a sustainability assurance client. As mentioned in paragraph 5360.7 A3(b), it does not extend to situations where the NOCLAR has been committed by entities in the sustainability assurance client's value chain. This is similar to extant Section 360, where the NOCLAR provisions do not apply to situations where the NOCLAR has been committed by a third party. Nevertheless, the sustainability assurance practitioner might find the guidance in Section 5360 helpful in considering how to respond in a situation of NOCLAR within the client's value chain.
58. Section 5360 includes:
  - One set of provisions applying to (actual or suspected) NOCLAR identified in the context of sustainability assurance engagements within the scope of the IIS in Part 5 (see paragraphs R5360.10 to 5360.28 A1 in Chapter 1);<sup>21</sup> and
  - Another set of provisions covering those sustainability assurance engagements outside the scope of the IIS in Part 5 as well as other professional services performed for a sustainability

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<sup>21</sup> Sustainability assurance engagements within the scope of the IIS in Part 5 are the type of engagements that the IESBA agreed are equivalent to audits of financial statements.

assurance client (see paragraphs R5360.29 to 5360.40 A1 in Chapter 1).

This segmentation mirrors the structure in extant Section 360<sup>22</sup> and is warranted by the scope of the ethics standards in the IESSA (see paragraphs 30 to 35 above).

59. The provisions applying to sustainability assurance engagements within the scope of the IIS in Part 5 include a proposed new requirement regarding the communication of (actual or suspected) NOCLAR to the auditor of the sustainability assurance client. Paragraph R5360.18a requires the practitioner to consider communicating (actual or suspected) NOCLAR to the auditor of the sustainability assurance client (if there is one). Paragraph 5360.18a A1 sets out examples of factors to guide the practitioner when considering whether to communicate the matter to the auditor. In particular, the last bullet on that illustrative list<sup>23</sup> allows for communication to be made according to the firm's or network firm's internal protocols or procedures.<sup>24</sup>
60. The IESBA considered adding a separate requirement for the practitioner to also consider communicating (actual or suspected) NOCLAR to other sustainability assurance practitioners performing engagements for the same client<sup>25</sup> but agreed not to for the following reasons:
- The identification of (actual or suspected) NOCLAR in sustainability assurance will most likely have an impact on the audit of the financial statements given the financial materiality aspect of sustainability reporting. Therefore, communication with the auditor is particularly relevant.
  - Requiring communication with other sustainability assurance practitioners could raise practical issues, such as knowing if the client has engaged other practitioners and whether those other practitioners are performing sustainability assurance engagements within the scope of the IIS in Part 5.
  - Based on feedback from the Sustainability Reference Group, at least in the UK, large companies doing voluntary assurance<sup>26</sup> usually just engage one sustainability assurance practitioner. As such, a situation where one practitioner would have to consider communicating with other practitioner(s) may be uncommon.
  - Expanding the existing communication requirements to other practitioners would add a layer of complexity, potentially impairing the understandability and ultimately the adoption and

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<sup>22</sup> Section 360 includes a group of provisions for audits of financial statements (see extant paragraphs R360.10 to 360.28 A1) and another group of provisions applying to professional services other than audits of financial statements (see extant paragraphs R360.29 to 360.40 A1).

<sup>23</sup> This bullet is a new factor added to Part 5 but not included in extant paragraphs 360.34 A1 since Section 360 includes additional requirements (in paragraphs R360.31 and R360.32) where communication is to be made or considered to be made within the firm or network firm.

<sup>24</sup> There is one factor in extant paragraph 360.34 A1 that was not replicated in Part 5, related to the likely materiality of the matter to the audit of the client's or the group's financial statements. The IESBA agreed not to include such a factor in Part 5 because it might not be reasonable to expect a practitioner who is not a PA to recognize the materiality of a NOCLAR situation to the audit of the client's or the group's financial statements, especially if that practitioner is not familiar with integrated reporting. In addition, feedback from the Sustainability Reference Group supported not having practitioners who are not PAs make judgments on financial materiality or form opinions about financial statements. In any case, if a practitioner who is not a PA has this kind of expertise, such a factor could also be considered given that the list in paragraph 5360.18a A1 is not exhaustive.

<sup>25</sup> For instance, there may be situations where one practitioner provides assurance on one aspect of the sustainability information disclosed (e.g., greenhouse gas emissions) and other practitioner(s) provide assurance on other aspects (e.g., water pollution; compliance with human rights).

<sup>26</sup> This relates to "assurance" taken in technical terms, i.e., under the IAASB standards. It does not refer to verification or certification services under for instance the ISO standards.



implementation of the IESSA.

61. Thus, this approach focuses on first ensuring that sustainability assurance practitioners understand how the NOCLAR provisions work under Part 5 before the IESBA considers expanding on them. It is also in line with the following Public Interest Framework characteristics: clarity and conciseness of the standards as well as their scalability (over time), implementability, and enforceability.
62. In light of the public interest in sustainability assurance engagements that are within the scope of the IIS in the new Part 5, the IESBA also proposes a symmetrical requirement in extant Section 360. Under proposed paragraph R360.18a, the PA performing an audit of the financial statements will be required to consider whether to communicate (actual or suspected) NOCLAR to the client's sustainability assurance practitioner(s) performing a sustainability assurance engagement within the scope of the IIS in Part 5.
63. The proposed new requirements in paragraphs R5360.18a and R360.18a and the corresponding application material were based on extant paragraphs R360.33 to 360.35 A1. From a confidentiality perspective, this corresponds to a situation covered under paragraphs 5114.3 A1(b)(iv) for Part 5 and 114.3 A1(b)(iv) for the revisions in Part 3 where the practitioner might be required to disclose confidential information or when such disclosure might be appropriate to comply with technical and professional standards, including ethics requirements.
64. Please refer to question 7.
65. The proposed IESSA only addresses communication between the sustainability assurance practitioner and the auditor in the context of NOCLAR. The IESBA considers that the terms for the communication in a broader sense between the practitioner and other parties such as the auditor (or other practitioners) is a matter for the relevant sustainability assurance standards (such as proposed ISSA 5000) to determine. The IESBA will coordinate with the IAASB on this matter as needed.
66. The provisions covering sustainability assurance engagements outside the scope of the IIS in Part 5 as well as other professional services performed for a sustainability assurance client include communication requirements that mirror extant paragraphs R360.31 to 360.35 A1, i.e., for purposes of communicating to the auditor only.
67. Upon deliberation, the IESBA agreed not to extend the scope of paragraphs R5360.31 to R5360.33 to also include the client's sustainability assurance practitioners(s) for the following reasons:
  - Communication for audit purposes is sufficient. If a practitioner communicates with the auditor under these requirements, that communication will, in turn, trigger the auditor to consider communicating with a sustainability assurance practitioner under new paragraph R360.18a (in Part 3). This means that a practitioner performing a sustainability assurance engagement within the scope of the IIS in Part 5 can still become aware of (actual or suspected) NOCLAR through the communication from the auditor.
  - Communicating (actual or suspected) NOCLAR to management or TCWG is the priority, as set out by the NOCLAR regime. This is supported by paragraphs 360.34 A1 (for Part 3) and 5360.18a A1 and 5360.34 A1 (both for Part 5) which set out that a factor when considering whether to communicate NOCLAR to the auditor is whether management or TCWG have already informed the auditor about the matter.
  - Extending the scope of paragraphs R5360.31 to R5360.33 would add a layer of complexity, potentially impairing the understandability and ultimately the adoption and implementation of the IESSA.

## Professional Accountants in Business (PAIBs) (Extant Part 2 of the Code)

68. The IESBA also proposes corresponding revisions to extant Section 260 (see paragraphs R260.15 and 260.15 A1 in Chapter 3) in order to align with the communication provisions mentioned above for Parts 5 and 3. The proposed revisions require the senior PA to determine whether to disclose (actual or suspected) NOCLAR also to the employing organization's sustainability assurance practitioner performing a sustainability assurance engagement within the scope of the IIS in Part 5. Please refer to question 8.

### ***Independence Standards in the Proposed IESSA***

69. The IIS in Part 5 require a sustainability assurance practitioner (referred to as "a firm"<sup>27</sup> in the IIS) performing a sustainability assurance engagement within the scope of the IIS to be independent. (See paragraph R5400.18. in Chapter 1.)
70. Like the approach for audit engagements, the proposed IIS in Part 5 also require network firms to be independent of the sustainability assurance clients of the other firms within the network in accordance with Part 5. The determination of the network and a network firm is based on the same concepts of network and network firms applicable in the case of an audit engagement. (See paragraphs 5400.50 A1 to 5400.54 A1 in Chapter 1.)
71. The conceptual framework set out in Section 5120 requires firms to identify, evaluate and address threats to independence in relation to a sustainability assurance engagement. In Part 5, the IIS provides examples and other guidance on interests, relationships, and circumstances that might create such threats to independence.
72. The IESBA's premise in developing the proposed IIS in Part 5 is that interests, relationships and circumstances that might create threats to independence for an audit of financial statements might also create threats for a sustainability assurance engagement. In developing the ED, the IESBA reviewed the independence standards for audit engagements and considered whether any changes or refinements are necessary based on the specific characteristics of sustainability assurance engagements, for example, with respect to the different subject matter (i.e., the sustainability information) and the different reporting boundaries.
73. The section below explains the key independence matters specific to sustainability assurance engagements.<sup>28</sup>

## Applying the Conceptual Framework to Independence for Sustainability Assurance Engagements

### *Quality Management System*

74. Participants at the IESBA's global sustainability roundtables agreed that all sustainability assurance practitioners, including PAs and non-PAs, must have a system of quality management in place in order to comply with the relevant requirements, including ethical requirements. Therefore, the proposed IESSA recognizes that the sustainability assurance standards are based on an expectation that the firm will have designed, implemented and operated an appropriate system of quality management as a prerequisite to the performance of high-quality sustainability assurance

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<sup>27</sup> See the explanation in paragraphs 76 and 77 in this document.

<sup>28</sup> Given the aim of equivalence between the independence standards for sustainability assurance engagements and those for audit engagements (in Part 5 and Part 4A of the Code, respectively), for any other independence matters set out in IIS in Part 5 please refer to the relevant standards and materials issued by IESBA applicable to audits of financial statements.

engagements. This is in line with the extant Code's approach in Part 4A which recognizes that the IAASB's ISQM 1<sup>29</sup> requires a firm to design, implement and operate a system of quality management for audits of financial statements performed by the firm.

75. Given that the proposed IESSA is framework-neutral, Part 5 does not prescribe a specific quality management standard. However, it states that sustainability assurance standards are based on an expectation that the sustainability assurance practitioner has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For illustrative purposes, the proposed Part 5 refers to the IAASB's ISSA 5000 as requiring compliance with ISQM 1<sup>30</sup> (or other legal, regulatory or professional requirements that are at least as demanding). (See paragraph 5400.3f in Chapter 1.)
76. Legal, regulatory or professional requirements that deal with the firm's responsibilities to design, implement, and operate a system of quality management might require the firm to address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. The allocation of responsibilities within a firm will depend on its size, structure and organization. Therefore, many of the provisions of the IIS in the proposed IESSA do not prescribe the specific responsibilities of individuals within the firm for actions related to independence, instead referring to "firm" for ease of reference. (See paragraph 5400.4 in Chapter 1.)
77. The determination of a "firm" in the context of a sustainability assurance engagement is equivalent to the approach in the context of an audit or other assurance engagement. Under proposed Part 5, a firm includes:
- (a) A sole practitioner, partnership or corporation of sustainability assurance practitioners;
  - (b) An entity that controls such parties, through ownership, management or other means; and
  - (c) An entity controlled by such parties, through ownership, management or other means.
- (See proposed revised Glossary to the Code in Chapter 2.)
78. The IIS in the proposed IESSA also set out specific requirements for members of the engagement team and sustainability assurance team. The determination of such individuals follows the same approach as for the engagement team and the audit team for audit engagements.<sup>31</sup> (See proposed revised Glossary to the Code in Chapter 2.)

#### *Sustainability Assurance Client*

79. The IIS in the proposed IESSA require a firm providing a sustainability assurance engagement to be independent of the sustainability assurance client. A sustainability assurance client covers the entity in respect of which a firm conducts a sustainability assurance engagement. In addition, equivalent to the approach for audit engagements, when the client is a publicly traded entity (as defined in the

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<sup>29</sup> International Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>30</sup> See paragraph 5b of the proposed ISSA 5000.

<sup>31</sup> For further material regarding the determination of an audit team member. please refer to the [Final Pronouncement: Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#)

Code), a sustainability assurance client will always include its related entities.<sup>32</sup> When the sustainability assurance client is not a publicly traded entity, the sustainability assurance client includes those related entities over which the client has direct or indirect control. Consequently, the firm needs to be independent of the relevant related entities, too. (See proposed revised Glossary in Chapter 3.)

80. The IESBA believes that the approach to independence standards for sustainability assurance engagements should be proportionate and provide a scalable approach for sustainability assurance clients that are not public interest entities (PIEs). This is the same approach for the independence standards for audits of financial statements in Part 4A. Therefore, some of the independence provisions in Part 5 are applicable only to sustainability assurance engagements of PIEs.
81. The IESBA agreed that, as a first step, Part 5 should not prescribe which entities are PIEs in the context of sustainability assurance engagements but, instead, rely on the revised definition of PIE recently finalized by the IESBA in the context of audits of financial statements.<sup>33</sup>
82. In the case of audit engagements, the factors guiding the determination of entities as PIEs are based on the extent of public interest in their financial condition. In the context of sustainability assurance engagements, stakeholders might also have heightened expectations given the nature of the entity and its sustainability information. However, the IESBA considers that in the context of the current regulatory environment, there would be the potential for confusion if an entity was determined to be a PIE solely on the basis of its sustainability information when it is not a PIE for the purposes of the audit of its financial statements.
83. Therefore, the IESBA proposes that an entity be deemed to be a PIE for the purposes of the sustainability assurance engagement if it has been determined as such for the purposes of the audit of its financial statements in accordance with the relevant provisions in Part 4A.<sup>34, 35</sup> (See paragraph 5400.13 in Chapter 1.) Please refer to question 9.
84. The IESBA notes that this approach maintains equivalency of treatment between the audit and sustainability assurance engagement of an entity that falls within the PIE definition. It avoids the situation where PIE requirements are applied in relation to the audit but not in relation to the sustainability assurance engagement for the same entity, an outcome that might be viewed as incoherent or anomalous especially in an integrated reporting context. However, in the case of a

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<sup>32</sup> The Glossary to the Code defines a related entity as “an entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.”

<sup>33</sup> [Final Pronouncement: Revisions to the Definition of Listed Entity and Public Interest Entity in the Code](#)

<sup>34</sup> Consequently, based on the approach in Part 4A, when determining whether an entity is a PIE, a sustainability assurance practitioner also needs to take into account more explicit definitions established by law, regulation or professional standards for the categories in the PIE definition.

<sup>35</sup> For further material regarding the determination of a PIE, please refer to material published by the IESBA related to the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#)

voluntary determination by the auditor of whether to treat an entity as a PIE for purposes of the audit of its financial statements, i.e., when the entity does not fall within the PIE definition, the IESBA does not believe that it would be appropriate for the Code to require another firm performing the sustainability assurance engagement to treat the entity as a PIE and therefore comply with the more stringent provisions in Part 5 applicable to PIEs. (See paragraph 5400.13a in Chapter 1.)

85. If a sustainability assurance client is a PIE, Part 5 will require the firm to publicly disclose the fact that it has applied the independence requirements for PIEs in the same manner as Part 4A requires for audit engagements (see paragraphs R5400.25 and R5400.26 in Chapter 1). The IESBA intends to coordinate with the IAASB and other sustainability assurance standards setters regarding the form and manner of such public disclosure.

#### Independence for Group Sustainability Assurance Engagements

86. The IESBA noted that sustainability reporting and assurance will be mandatory in some major jurisdictions, mostly for entities that operate as groups. Certain sustainability reporting frameworks already require reporting on a consolidated basis.<sup>36</sup> Therefore, the IESBA considered how the IIS in the proposed IESSA could best address independence considerations for group sustainability assurance engagements where the sustainability information includes the information of more than one entity or business unit, in a way that would achieve equivalence to the independence standards for group audit engagements. The IESBA recognized that the IAASB's proposed ISSA 5000 addresses group sustainability assurance engagements only in a general and overarching way.<sup>37</sup> However, the IESBA generally was of the view that not explicitly addressing group sustainability assurance engagements in Part 5 would detract from the premise that the independence standards in Part 5 are equivalent to those for audit engagements in Part 4A.
87. Furthermore, the proposed IESSA is being developed in a framework-neutral way. Accordingly, the proposed IESSA should address the independence of a sustainability assurance practitioner engaged to express an opinion on group sustainability information, irrespective of whether the practitioner applies ISSA 5000 or another sustainability assurance standard(s).
88. Therefore, the IIS in the proposed IESSA expressly address the independence considerations for group sustainability assurance engagements, i.e., when a group sustainability assurance firm and any component sustainability assurance firms carry out the assurance work. The relevant provisions in Section 5405 are equivalent to the independence standards applicable to group audit engagements.<sup>38</sup> To maintain that equivalence given that there is not yet an equivalent of ISA 600

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<sup>36</sup> For example, in the EU, the Corporate Sustainability Reporting Directive (CSRD) already requires entities to report their sustainability information on a consolidated basis from 2025.

<sup>37</sup> The IAASB explained, in the Explanatory Memorandum that accompanied the Exposure Draft of proposed ISSA 5000, that the principles-based requirements in the proposed standard are capable of being applied for all sustainability assurance engagements, including for all types of sustainability information, regardless of the manner in which that information is presented. This includes that the sustainability information may be for a single entity or may include information for entities that are part of a group or other entities in the reporting entity's value chain. In addition to requirements and application material that recognize that the assurance engagement may involve firms and individuals from firms other than the assurance practitioner's firm, the application material also includes several references to groups or "consolidated" sustainability information, and examples of how certain requirements may be applied in those circumstances.

<sup>38</sup> For further information regarding the provisions applicable to group audits, please refer to the [Final Pronouncement: Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#), and the related [IESBA Staff Questions and Answers publication](#).

(Revised)<sup>39</sup> for group sustainability assurance engagements, Section 5405 includes specific requirements concerning the communication between the group sustainability assurance firm and the component sustainability assurance firms regarding the relevant ethics, including independence, provisions that apply to the group sustainability assurance engagement (see paragraphs R5405.3 and R5405.4 in Chapter 1). These proposed requirements help to achieve the effect of the requirements in ISA 600 (Revised), referenced in Section 405 in Part 4A, concerning the communication between the group audit firm and the component auditor firms regarding the relevant ethics, including independence, provisions that apply to the group audit engagement. The IESBA welcomes stakeholders' views on the current practice regarding sustainability reporting and assurance in a group context, how practice might develop in the future and whether this might give rise to potential issues in the application of the proposed provisions in Section 5405. Please refer to questions 10(a) and (b)(i)-(ii).

89. Given the equivalence to provisions applicable to group audit engagements, the IESBA proposes that the terms and definitions in Section 5405, such as group sustainability assurance firm, component sustainability assurance firm and group sustainability assurance team, mirror the concepts in the equivalent terms used in the independence standards for group audit engagements. (See proposed revised Glossary in Chapter 2.)
90. Concerning the definition of group sustainability assurance client, similar to the independence standards for group audit engagements, the IESBA is proposing that apart from the entity on whose group sustainability information the firm expresses an opinion and the relevant related entities, the definition also includes components at which assurance work is performed. In the context of group sustainability assurance engagements, the Code defines a component as an entity, business unit, function or business activity, or some combination thereof, determined by the group sustainability assurance firm for purposes of planning and performing assurance procedures in the group sustainability assurance engagement. Importantly, this definition explicitly excludes entities within the client's value chain. (See proposed revised Glossary in Chapter 2.) The independence considerations applicable to assurance work performed at, or with respect to, a value chain entity are addressed in Section 5407.
91. During its deliberations, the IESBA considered some concerns that references to the term "components" in the new Part 5 could create potential confusion for non-PAs if such a term is perceived to be audit-specific. The IESBA considered whether terms other than "components" might be used to describe the entities or business units within a group that are captured within the scope of the group sustainability assurance engagement. Upon deliberation, the IESBA came to the general view that consistency with the independence standards for group audit engagements would be beneficial, avoiding different terms to describe what are in essence the same parts of a group. The IESBA also considered that using other terms (for example, reporting entity) for the purposes of Section 5405 would not alleviate perceptions of potential complexity from the perspective of non-PAs. The IESBA noted that assisting non-PAs in achieving full understanding of all the provisions of Part 5 would be a matter of implementation, education and training. Please refer to question 10(b)(iii).
92. The IESBA acknowledges that until the IAASB or other sustainability assurance standard setters develop more specific standards addressing group sustainability assurance engagements, sustainability assurance practitioners might need guidance to consistently apply the provisions in Part 5 applicable to group reporting situations. Subject to the feedback received from stakeholders, the

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<sup>39</sup> International Standard on Auditing (ISA) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

IESBA will consider what implementation support resources, if any, it might commission to facilitate effective implementation of the provisions. The IESBA will also coordinate closely with the IAASB regarding the IAASB's future considerations in relation to addressing group sustainability assurance engagements.

#### Using the Work of Another Sustainability Assurance Practitioner

93. As mentioned above, Section 5405 in the proposed IESSA addresses independence considerations for group sustainability assurance firms, component sustainability assurance firms and members of the group sustainability assurance team. The latter might include individuals from outside the firm (either within or outside network firms) who perform assurance work at components within the group. However, the (group) firm must be able to direct, supervise and review the work of such individuals when they are members of the group sustainability assurance team.
94. For the purpose of issuing an assurance report on sustainability information, a firm might wish to use the work of another practitioner who has already carried out, or will carry out, assurance work with respect to a sustainability assurance client or a group sustainability assurance client, despite the firm not being able to direct, supervise and review the work of that practitioner. In this regard, the proposed ISSA 5000 recognizes and addresses the concept of using the work of *“another practitioner.”*<sup>40</sup> To align with proposed ISSA 5000, the IESBA proposes to address independence considerations regarding using the work of another practitioner in a new Section 5406.
95. For the purposes of the IIS in Part 5, the IESBA also proposes to define the new term “another practitioner” (also referred to as “other practitioner” where appropriate for ease of drafting) as a sole practitioner, partnership or corporation of practitioners that performs assurance work relevant to a sustainability assurance engagement, and the sustainability assurance practitioner is unable to direct, supervise and review their work. Along with this proposed new definition, the Glossary makes it clear that an individual from another practitioner who performs the assurance work is not a member of the engagement team. (See proposed revised Glossary in Chapter 2.)
96. When another practitioner carries out sustainability assurance work at the sustainability assurance client, the IESBA considered that the impact of their work on the outcome of the engagement and the firm's responsibilities in using their work are different compared with other individuals who might be involved in the engagement, but who are not carrying out assurance work, such as external experts or data providers. Therefore, as described below, proposed Section 5406 sets out an approach to addressing the independence considerations with respect to using the work of another practitioner at a sustainability assurance client.<sup>41</sup> Please refer to question 11.
97. The IESBA recognizes that where a practitioner whose work the firm intends to use is not under the firm's direction and supervision, the firm cannot directly require that practitioner to comply with the Code's provisions. In some instances, that practitioner might have already completed their assurance work and might not have been subject to Part 5 of the Code. In light of this, the IIS in the proposed IESSA require the firm to:
  - Make the other practitioner aware of the relevant ethics, including independence, provisions;  
and

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<sup>40</sup> Paragraph A22 in the Exposure Draft of the proposed ISSA 5000

<sup>41</sup> Section 5407 addresses circumstances where another practitioner, whose work the firm is not able to direct, supervise and review, performs assurance work at a value chain entity and the firm intends to use that work.

- Request that practitioner to confirm that they understand and will comply or, if the work has already been carried out, has complied, with such provisions. (See paragraphs R5406.3 and R5406.4 in Chapter 1.)
98. To meet the above request, the IESBA proposes that the other practitioner confirm that both the practitioner and the individuals from the practitioner who perform the assurance work are independent of the entity on whose sustainability information the other practitioner performs assurance work, in accordance with the independence requirements of Part 5. Given that the sustainability assurance client also includes certain related entities as defined in the Glossary, the other practitioner will need to be independent not only of the entity on whose sustainability information the other practitioner performs assurance work, but also its relevant related entities. (See paragraph R5406.5. in Chapter 1.)
  99. Furthermore, to maintain consistency with the approach used in the proposed Section 5405 on group sustainability assurance engagements, the IESBA intends that the independence provisions that apply to the entity on whose sustainability information the firm expresses an opinion (the client) should apply throughout the engagement and each entity within the definition of the sustainability assurance client. Accordingly, if a firm intends to use the work of another practitioner who performs assurance work at an entity that is not a PIE, but the entity on whose sustainability information the firm expresses an opinion is a PIE, the firm will need to request confirmation that the other practitioner is independent of the entity on whose sustainability information that practitioner performs assurance work in accordance with the provisions applicable to PIEs.
  100. If the firm cannot obtain confirmation regarding the independence of the other practitioner in accordance with the IIS in the proposed IESSA, the firm will need to consider that fact in determining whether, under the applicable sustainability assurance standards, it can proceed to use the assurance work of that practitioner for the purposes of the sustainability assurance engagement.
  101. The diagram in Appendix 3 explains the applicable sections in the proposed IIS of Part 5 when the firm performing the sustainability assurance engagement uses the assurance work of another sustainability assurance practitioner for the purposes of that engagement.

#### Independence Considerations Relating to Value Chain Entities

102. The reporting boundary for the sustainability information might differ from the reporting boundary for the financial statements. For example, a sustainability reporting framework might require the reporting entity to include information about material value chain entities in the sustainability information on which the firm will express an opinion. Consequently, interests, relationships or circumstances involving such value chain entities might create threats to the firm's independence. The IESBA proposes that the IIS in the IESSA specifically address these considerations.
103. Given that the determination of entities within the value chain is based on the reporting framework, the IESBA proposes that the Code define a client's value chain by reference to the applicable reporting framework. The value chain might include, for example, a sustainability assurance client's customers and suppliers that are material for sustainability reporting purposes. The value chain does not include components as defined for the purposes of a group sustainability assurance engagement. Please refer to question 12.



104. Based on the proposed definition of group sustainability assurance client,<sup>42</sup> value chain entities are not part of the client's organizational boundary and are not under its control. Therefore, the provisions in Part 5 relevant to (group) sustainability assurance clients are not applicable to them. In light of this, the IESBA proposes to include new provisions in Sections 5407 and 5700 in the proposed IESSA that explicitly address the independence considerations applicable when assurance work is carried out at, or with respect to, a value chain entity for the purposes of a sustainability assurance engagement.
105. The IESBA welcomes stakeholders' views on whether the IIS in the proposed IESSA appropriately address the threats to independence related to value chain entities. Please refer to questions 13 and 14.

#### *Assurance Work at a Value Chain Entity*

106. If a sustainability reporting framework requires the inclusion of a value chain entity's information in the sustainability information (the value chain entity's information will most likely be material to that information), a firm performing the sustainability assurance engagement might determine to perform assurance procedures at, or with respect to, that value chain entity. In such circumstances, the firm might:
- (a) Perform the assurance work at the value chain entity;
  - (b) Use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity; or
  - (c) Perform 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.
107. Proposed Section 5407 addresses the independence considerations relating to the assurance work performed at, or with respect to, a value chain entity covered by bullet points (a) to (c) above. As the information of value chain entities may be included in both standalone or group sustainability information, this Section is applicable to both.
108. If the firm performs the assurance work at a value chain entity, proposed Section 5407 requires the firm and members of the sustainability assurance team to be independent of the value chain entity in accordance with the independence requirements of Part 5 that are applicable to a firm and a sustainability assurance team member, respectively, with respect to a sustainability assurance client. Given that the determination of the sustainability assurance client also includes certain related entities as specified in the definition of sustainability assurance client, the firm and members of the sustainability assurance team will need to be independent from not only the value chain entity, but also its relevant related entities. (See paragraph R5407.3 in Chapter 1.)
109. Where the firm decides to use the work of a sustainability assurance practitioner who separately performs the assurance work at the value chain entity:
- This practitioner could be any other sustainability assurance practitioner, irrespective of whether the firm is able to direct, supervise and review that practitioner's work.<sup>43</sup>
  - In such circumstances, proposed Section 5407 requires the firm to be satisfied that such practitioner is independent of the value chain entity in accordance with the independence

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<sup>42</sup> See proposed revised Glossary in Chapter 2.

<sup>43</sup> This also includes "another practitioner" as defined in the proposed revisions to the Glossary to the Code.

requirements of Part 5 that are applicable to a firm with respect to that entity. The independence requirements are only applicable with respect to the value chain entity at which that practitioner performs the assurance work. (See paragraph R5407.4 in Chapter 1.)

- Recognizing that the value chain entity's sustainability assurance practitioner might have already carried out the relevant assurance work, and that such work might be used for the purposes of various other entities' sustainability assurance engagements, the IESBA proposes a pragmatic approach. That is, in such circumstances, the firm may rely on a statement of independence in the sustainability assurance practitioner's report to meet the above requirement. (See paragraph 5407.4 A1 in Chapter 1.)
- However, if that practitioner has not provided a statement of independence in relation to the assurance work at the value chain entity, proposed Section 5407 makes it a responsibility of the engagement leader to request that practitioner to confirm whether:
  - Where the work has yet to be carried out, the practitioner will comply with the relevant ethics, including independence, provisions of Part 5; or
  - Where the work has already been carried out, the practitioner understands and has complied with the relevant ethics, including independence, provisions of Part 5. (See paragraph R5407.5 in Chapter 1.)

110. If 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, proposed Section 5407 requires the firm and members of the sustainability assurance team to be independent of the sustainability assurance client in accordance with the independence requirements of Part 5. (See paragraph R5407.6 in Chapter 1.)

#### *Interests, Relationships or Circumstances Involving Value Chain Entities*

111. There might be circumstances where a firm uses the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity whose sustainability information is included in sustainability information on which the firm expresses an opinion. Although the firm uses the assurance work of the other practitioner, the firm still has ultimate responsibility for the sustainability assurance engagement and the opinion on the sustainability information. Therefore, the IESBA believes that Part 5 should recognize that interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and that value chain entity might create threats to the firm's independence. The IESBA welcomes respondents' views on whether proposed Section 5700 appropriately addresses such threats. Please refer to question 14.

112. Recognizing that the level of the threats to independence that might be created by interests, relationships or circumstances involving a value chain entity will generally be lower, the IESBA proposes in Section 5700 that such threats be addressed on a "knows or has reason to believe" principle basis. (See paragraph R5700.4. in Chapter 1.)

113. The "knows or has reason to believe" principle is a well-established concept in the extant Code. The IESBA does not intend that the application of the "knows or has reason to believe" principle create a monitoring obligation on the firm. Accordingly, there is no expectation that the firm maintains an up-to-date database of the client's value chain entities and monitor any interests, relationships and circumstances between the firm, network firms and members of the sustainability assurance team and such entities. There is also no expectation that the firm monitor any changes to the client's value

chain during the engagement period or the reporting period for the engagement.

114. The approach in Section 5700 relies on the application of the conceptual framework as set out in Section 5120. If the sustainability assurance team knows about any interests, relationships or circumstances between the firm, a network firm or members of the sustainability assurance team and the value chain entity, the sustainability assurance team will need to include them when identifying, evaluating and addressing threats to independence. If the threats are not at an acceptable level, the sustainability assurance team will need to consider actions that might eliminate the threats or reduce them to an acceptable level. The IESBA welcomes respondents' views as to whether Section 5700 should provide more guidance in this regard, such as examples of factors to evaluate threats and potential safeguards.

#### Provision of Non-Assurance Services to Sustainability Assurance Clients

115. Taking an equivalent approach to the independence standards for audit engagements, the IIS in the proposed IESSA set out that providing NAS to a sustainability assurance client might create threats to compliance with the fundamental principles and to independence. The provision of NAS to an audit client focuses on the impact of such services on the financial statements. Likewise, the IESBA considers that in the context of a sustainability assurance engagement, the provision of the same NAS may impact the sustainability information on which the firm expresses an opinion. Consequently, the IESBA agreed that that general requirements and application material set out in Section 600 of Part 4A for audit engagements (such as the prohibition from assuming management responsibility, "self-review threat prohibition," and communication with TCWG) are also applicable when the firm provides NAS to a sustainability assurance client.
116. The proposed Section 5600 and its subsections also include updated examples that are more relevant to sustainability-related services.
117. Please refer to question 15.

#### *Examples of NAS*

118. The subsections to Section 5600 address the same types of NAS as in the independence standards for audit engagements in Part 4A of the Code, except for:
- Accounting and bookkeeping services.
  - Valuation services.
119. Instead of accounting and bookkeeping services, the proposed IESSA focuses more broadly on the provision of sustainability data and information services to a sustainability assurance client as those services might affect the sustainability information on which the firm expresses an opinion.<sup>44</sup> The provision of accounting and bookkeeping services to a sustainability assurance client is addressed

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<sup>44</sup> The IIS in the proposed IESSA only prohibit firms from providing a sustainability data and information service to the sustainability assurance client if that service might be relevant to the sustainability information on which the firm expresses an opinion. If the firm expresses an assurance conclusion only in relation to certain sustainability matters, for example, climate-related issues, and the firm also provided sustainability information services in relation to reporting on other matters (for example, a Diversity, Equity, and Inclusion (DEI) Transparency Report) that is not in the scope of the sustainability assurance engagement, the provision of such a service does not create a self-review threat. Although the provision of sustainability data and information services in relation to sustainability information that is not subject to sustainability assurance is not prohibited under subsection 5601, the firm will still need to evaluate and address any other threats created by the provision of that service to the client. (See paragraphs R5601.5 and R5601.6 in Chapter 1.)

as one type of sustainability data and information services.<sup>45</sup> (See Subsection 5601 in Chapter 1.)

120. The Sustainability Reference Group pointed out that apart from valuation services, providing other NAS to a sustainability assurance client with regard to future developments of non-monetary value, such as estimation or other forecasting services (e.g., a service that includes estimating the amount of hazardous substances produced by a manufacturing process), could also create threats to independence. Given the similarities between estimation, forecasting and similar types of services and valuation services, the IESBA proposes to address these services under the same subsection as “valuation” services. (See Subsection 5603.)
121. Please refer to question 16 regarding the list of specific NAS addressed in Subsections 5601 to 5610.

#### *Materiality*

122. Section 5600 in the proposed IESSA, based on Section 600 in Part 4A, also provides factors to assist firms in identifying the different threats that might be created by providing a NAS to a sustainability assurance client. One such factor is the consideration of whether the outcome of the service will have a material effect on the sustainability information. Since the IIS in the proposed IESSA are applicable irrespective of the reporting framework used by the reporting entity or sustainability assurance standards used by the firm, the determination of materiality, and whether it is single or double materiality, will depend on the applicable reporting framework or assurance standards (for example, materiality in the CSRD or in the standards issued by the International Sustainability Standards Board (ISSB)). (See paragraph 5600.11 A1 in Chapter 1.)

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

123. The IIS in the proposed IESSA also address certain independence matters and provide related guidance when the firm performs both audit and sustainability assurance engagements for the same client. Please refer to question 17.

#### *Fees*

124. As a guardrail around independence, the independence standards for audit engagements in the extant Part 4A require a firm to address the threats to independence arising from the firm receiving fees for services other than audit, including the fees for assurance services. The IESBA took into account that in practice, the audit and sustainability assurance engagements are generally still separate engagements, and in jurisdictions that require the disclosure of fees, regulators generally mandate the disclosure of audit fees only.
125. Although the IESBA’s objective is for equivalency between independence standards for audit engagements and independence standards for sustainability assurance engagements, the IESBA considered during its deliberations that there might be threats arising from concerns about the potential loss of the sustainability assurance engagement as a separate engagement (for example, if the firm were to express a modified audit opinion on the financial statements), which might impact the firm’s objectivity. The IESBA also considered that there might be a perception that the firm or network firm focuses on the sustainability assurance relationship to the detriment of the audit

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<sup>45</sup> In addition, subsection 5601 does not mirror the exemption in paragraph R601.7 provided for accounting and bookkeeping services in Part 4A. The IESBA approved that exception to address a specific jurisdictional circumstance that is not relevant in the context of a sustainability assurance engagement.

engagement, or vice versa. Consequently, if the auditor also provides sustainability services to the client, Part 4A requires the firm to disclose the fees for such services as non-audit fees and consider applying safeguards regarding the proportion of non-audit to audit fees.

126. If the firm provides both the audit and the sustainability assurance engagements, the IIS in Part 5 guide the firms to apply the provisions in Section 410 in Part 4A regarding the evaluation of the threats created by the proportion of fees for services other than audit, including assurance services such as sustainability assurance engagements, to the audit fee. (See paragraph 5410.11 A1 in Chapter 1.)
127. The extant guidance in Section 410 in Part 4A relating to the evaluation of the level of the threats created by the proportion of fees includes the consideration of the nature, scope and purposes of the services other than audit, as a factor. The IESBA proposes a consequential amendment to this factor to clarify its applicability to sustainability assurance engagements. In circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level, especially if the auditor's performance of the sustainability assurance engagement is required by law or regulation. (See paragraph 410.11 A2 in Chapter 3.)
128. The IESBA notes that the provisions in Part 4A on the proportion of fees do not include any prohibition, threshold or a fee cap. Section 410 sets out guidance for firms to evaluate the level of the threats that might be created by the proportion of fees and provides guidance to assist such evaluation. Nevertheless, the IESBA believes that Part 5 needs to acknowledge the potential threats to independence related to the provision of both the audit and sustainability assurance engagements by the same firm, and guide the firm to evaluate the level of such threats and address them, if necessary. The IESBA does not believe that this guidance would impede the development of the sustainability assurance market or discourage the movement towards integrated reporting.
129. The IESBA welcomes respondents' views on the proposed approach regarding the proportion of fees received from audit and sustainability assurance engagements.

#### *Long Association*

130. If the auditor later becomes the provider of sustainability assurance services (or vice versa) to the same client, the extended period of the relationship might create familiarity and self-interest threats to independence. Accordingly, the IESBA proposes that the independence standards for audit and sustainability assurance engagements should address such threats. (See proposed Section 5540 in Chapter 1.)
131. This approach results in proposed consequential amendments to Section 540 in Part 4A applicable to audit engagements. (See proposed changes to Section 540 in Part 4A in Chapter 3.)

### **III. SUSTAINABILITY REPORTING**

132. This Section covers Chapter 4 of the ED and questions 20 to 23.

#### **A. General Overview**

##### ***Scope of Sustainability Reporting-related Revisions***

133. The IESBA considered whether to develop ethics standards for sustainability reporting to apply to all preparers of sustainability information (i.e., profession-agnostic). This would mean all those preparing, reporting and assuring sustainability information, regardless of their profession or field,

could be covered by the same robust ethics (including independence) standards issued by the IESBA.

134. While recognizing the benefits of all preparers of sustainability reporting being subject to the same robust ethics standards, the IESBA determined to restrict the scope of the current Sustainability project to developing ethics standards for sustainability reporting by PAs at this time. In reaching this decision, the IESBA has taken into account the following:
- There was no urgent international regulatory call for profession-agnostic ethics standards for sustainability reporting at this time.
  - There was no strong support from the global sustainability roundtable participants for the IESBA to develop profession-agnostic ethics standards for sustainability reporting at this moment, due to doubts about the enforceability of such standards on non-PAs as well as other factors such as the current use of corporate governance codes by regulators in a number of jurisdictions.
  - The need to expand the scope of extant Part 2 to all preparers of sustainability reporting is a much broader strategic matter which will require the IESBA's consideration over a longer period of time and discussions with a broad range of stakeholders.
135. In developing its SWP,<sup>46</sup> the IESBA observed that there is a public expectation that all preparers of financial and non-financial information should be subject to the same high ethics standards. Therefore, the IESBA agreed that it is in the public interest for it to explore the opportunity to extend the impact of the Code beyond the accountancy profession as a key strategic focus area. The IESBA has already taken the first step on this journey in developing profession-agnostic ethics (including independence) standards for sustainability assurance engagements under the current Sustainability project. As part of a phased approach, the IESBA will take the next step and focus on sustainability information with a new work stream to explore developing profession-agnostic ethics standards for sustainability reporting, to commence after the finalization of this project in 2024. Please refer to question 20.

### **Framework-neutral Standards**

136. Consistent with the approach in the extant Code, the proposed sustainability reporting-related revisions have been developed to be framework-neutral, suitable for use irrespective of the underlying framework used to prepare the sustainability information, such as the ISSB's IFRS Sustainability Disclosure Standards, the Global Reporting Initiative (GRI) standards and the EFRAG's European Sustainability Reporting Standards (ESRS).
137. For instance, the proposed definition of sustainability information (see paragraphs 24 to 26) is drafted broadly to capture such information regardless of the framework used, and includes sustainability information "*prepared for internal purposes or for mandatory or voluntary disclosure.*"

### **Public Interest Framework Considerations**

138. The IESBA is of the view that the proposed sustainability reporting-related revisions are responsive to the public interest considering the Public Interest Framework characteristics, in particular (please refer to question 21):

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<sup>46</sup> The new SWP for 2024-2027 was approved by the IESBA in December 2023 (see [Agenda Item 2-H.1](#) of the December 2023 IESBA meeting). Subject to PIOB approval of due process, the SWP is expected to be released in April 2024.

- *Coherence* with the overall body of the IESBA's standards, recognizing that the extant Parts 2 and 3 already contain robust standards that address ethics issues relating to PAIBs performing professional activities and PAPPs providing professional services, respectively.
- *Relevance, clarity and conciseness* of the standards, notably by adding only those considerations and examples that are necessary to make Parts 1 to 3 fit for sustainability reporting.
- *Implementability and enforceability*, notably by maintaining the integrity of Parts 1 to 3 and making specific revisions only where necessary.

## **B. Significant Matters**

139. The rapidly changing ecosystem of global and national sustainability standard setting, and the qualitative and forward-looking nature of sustainability information result in increased challenges, complexity and uncertainty in preparing or presenting sustainability information. Accordingly, PAs' exercise of discretion and professional judgment play a crucial role when performing such activities.
140. Extant Parts 1 to 3 of the Code already contain robust standards addressing ethics issues that might arise when performing financial or non-financial reporting. Accordingly, the IESBA does not believe substantive changes to address ethics issues specific to sustainability reporting are required. However, to ensure that these Parts remain fit for purpose, the IESBA proposes to include sustainability references where applicable, and to revise existing examples and add new examples relating to:
- Conduct to mislead in sustainability reporting;
  - Value chain considerations relevant to sustainability reporting; and
  - The forward-looking nature of sustainability information.

### ***Proposed Revisions to Section 220<sup>47</sup>***

141. Section 220 of the Code guides PAIBs at all levels of the employing organization when involved in preparing and presenting financial or non-financial information, both within and outside the organization. Accordingly, a substantial proportion of the proposed sustainability reporting revisions was made to Section 220, including examples on conduct to mislead in sustainability reporting, the value chain and forward-looking information (see further discussions below). Other proposed revisions to this section include:
- Clarification that the preparation or presentation of information:
    - Relates not only to an entity's state of affairs, but also its operations, which would include, for example, its services or products (see paragraph 220.3 A2); and
    - Includes collecting the information, such as from an entity's value chain, and measuring the information, through for example measurement methods, metrics and estimations (see paragraph 220.3 A3).
  - Expanding the extant requirement that when preparing or presenting information, a PA must exercise professional judgment to also incorporate:
    - Describing clearly the impacts of business transactions or activities, as impacts are an

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<sup>47</sup> Section 220, *Preparation and Presentation of Information*

important aspect of certain sustainability reporting frameworks (such as GRI and ESRS) (see subparagraph R220.4(c)(ii)); and

- Collecting and measuring information in a timely and proper manner (see subparagraph R220.4(c)(iii)).
- Expanding the types of information that a PA is encouraged to consider documenting to include the PA's analysis, assumptions, and judgments and decisions made in preparing or presenting the information (see paragraph 220.11 A1).

142. Please refer to question 22.

### ***Conduct to Mislead in Sustainability Reporting***

143. Conduct to mislead in sustainability reporting might arise from intentionally misleading others or through inappropriately using discretion, to misrepresent how responsible an organization is from a sustainability perspective (for example, “greenwashing”), or intentionally omitting certain sustainability information to avoid scrutiny on an organization’s sustainability efforts (for example, “greenhushing”).
144. PAs must not intentionally prepare or present information in a manner to mislead others or omit anything to render the information misleading (see subparagraphs R220.4(b) & (d)). Accordingly, a proposed new example illustrates how sustainability information might be intentionally prepared or presented to mislead others through a range of practices, such as omitting information, including false information, inappropriate calculations, or over/under emphasizing certain information (see paragraph 220.4 A1).
145. An applicable sustainability reporting framework might permit different actions, such as alternative measurement methods, or an entity might voluntarily apply such a framework or implement its own entity-defined framework. These situations require PAs to exercise discretion in making professional judgments. Accordingly, proposed examples in paragraph 220.5 A1 demonstrate how such discretion might be misused to mislead others or misrepresent sustainability information in contravention of paragraph R220.5.
146. The ED also includes new examples of pressure exerted on a PA in a sustainability reporting context that might result in a breach of compliance with the fundamental principles, such as pressure to misrepresent how an entity is aligned to or achieving its sustainability goals, and to manipulate sustainability information to avoid fines for breaches of environmental laws and regulations (see paragraph 270.3 A2).

### ***Value Chain Considerations***

147. Collecting and using data from within the value chain to prepare or present sustainability information might create ethics issues for PAs. Feedback from the global sustainability roundtables included that preparers need to be transparent about the availability and deficiencies of data, and that complexity in the value chain can result in difficulties in collecting reliable data.
148. When preparing or presenting information, PAs must avoid undue influence of, or reliance on, individuals, organizations or technology (see subparagraph R220.4(e)). A proposed new example illustrates that failing to consider the source, relevance and sufficiency of a supplier's data that is used in preparing or presenting sustainability information would result in undue reliance on an organization (see paragraph 220.4 A3). This example draws on the extant requirement in the Code for PAs to have an inquiring mind, which is a prerequisite to understanding known facts and



circumstances and involves considering the source, relevance and sufficiency of information obtained (see extant paragraphs R120.5 and 120.5 A1).

149. The IESBA also believes that the quantitative and qualitative characteristics of a client's value chain might impact the PA's evaluation of the level of threats to compliance with the fundamental principles (see proposed paragraphs 300.7 A4a and 320.3 A4). The example in paragraph 300.7 A4a highlights that a threat to compliance with professional competence and due care might arise where sustainability information comes from multiple suppliers that are geographically dispersed or is prepared under different reporting frameworks. The IESBA believes these situations might impair a PA's ability to act diligently and in accordance with applicable technical and professional standards (see extant subparagraph R113.1(b)) on a careful, thorough and timely basis (see extant paragraph 113.1 A3). These situations might also reduce the PA's ability to attain and maintain professional knowledge and skill (see extant subparagraph R113.1) under a myriad of different requirements.
150. Relationships with entities in the value chain might also create threats to compliance with the fundamental principles, such as a self-interest threat resulting from a PAIB holding a financial interest in a supplier of their employing organization where that supplier is impacted by the employing organization's sustainability practices (see proposed example in paragraph 200.6 A1(a)).

### **Forward-looking Information**

151. A fundamental aspect of sustainability reporting is forward-looking information. However, the inherent uncertainty in such information creates potential ethics issues. For instance, excessive optimism in the analysis of estimates, and forward-looking information which is more qualitative and narrative-based by nature may lead to "greenwashing."
152. Therefore, the IESBA has proposed a new example in paragraph 220.5 A1 on how discretion in the preparation of forward-looking information might be misused in order to achieve inappropriate outcomes. This example was developed for broader application beyond sustainability reporting as forward-looking information is relevant to various types of information, including financial information.
153. The IESBA also believes that recent technology-related revisions to the Code dealing with the impact and management of complexity<sup>48</sup> include useful guidance for PAs when using forward-looking information. These provisions highlight that complexity, whether it is technology-related or not, is a factor to consider when exercising professional judgment. The provisions also explain that complexity results from the "*compounding effect of the interaction between, and changes in, elements of the facts and circumstances that are uncertain and variables and assumptions that are interconnected or interdependent.*"<sup>49</sup>
154. Please refer to question 22.

### **Other Matters**

155. The IESBA is also proposing a number of additional sustainability reporting-related examples and concepts to Parts 1 to 3 of the extant Code relating to:
- A sustainability-related committee as a further example of a subgroup of TCWG, in addition to an audit committee or individual member of TCWG (see paragraphs 200.9 A2 and 300.9 A2).

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<sup>48</sup> Paragraphs 120.5 A6 to 120.5 A8 introduced in the IESBA's *Final Pronouncement April 2023 Technology-related Revisions to the Code* effective December 15, 2024.

<sup>49</sup> Paragraph 120.5 A6.

- A sustainability assurance practitioner as a potential avenue for PAs to communicate concerns in respect of misleading information or pressure to breach the fundamental principles (see paragraphs 220.9 A2 and 270.3 A4).
- Identification of threats to compliance with the fundamental principles (see paragraphs 200.6 A1 and 300.6 A1) and pressure that might result in threats to compliance with the fundamental principles (see paragraph 270.3 A2).
- Examples of circumstances with respect to financial interests, compensation and incentives that might create a self-interest threat (see paragraph 240.3 A2).

156. Please refer to question 22.

#### **IV. USING THE WORK OF AN EXTERNAL EXPERT**

157. Certain provisions in Section 5320 as well as Section 5390 of the proposed IESSA (in Chapter 1), and the revisions to “Using the Work of Others” in Section 220 and “Using the Work of an Expert” in Section 320, in the extant Code (in Chapter 4), all highlighted in grey, were developed under the Use of Experts project. See the Use of Experts Exposure Draft<sup>50</sup> for the respective rationale. Any feedback to those proposals should be provided in response to that Exposure Draft.

#### **V. ANALYSIS OF OVERALL IMPACT OF THE PROPOSED CHANGES**

158. The IESBA believes that the proposed IESSA and other revisions to the Code are critical to achieving public trust and confidence in sustainability assurance and reporting, and will support growth in the sustainability assurance market. The IESSA in particular aims to respond to an international regulatory call for robust ethics (including independence) standards that can be used by all sustainability assurance practitioners to foster independent, high-quality engagements and consistent practices.

159. Given the equivalence approach, the IESBA believes that practitioners who are already familiar with the extant Code (e.g., auditors of financial statements and other practitioners performing engagements where there is a requirement for compliance with the extant Code or other requirements that are as least as stringent, such as an ISAE 3000 (Revised)<sup>51</sup> engagement) could implement the new standards without significant costs related to obtaining an understanding of the new requirements. Nonetheless, a few areas that will be impacted as a result of the IESSA include:

- The NOCLAR sections in Parts 2 and 3 of the Code, in particular, the new requirement in Part 3 for the auditor to consider communicating actual or suspected NOCLAR to the sustainability assurance practitioner (see paragraphs 56 to 63 above);
- The provisions in Section 5405 addressing group sustainability assurance engagements. (In the case of group sustainability assurance engagements performed in accordance with IAASB standards, there is currently no equivalent standard to ISA 600 (Revised), which applies to audits of group financial statements; such group sustainability assurance engagements will be covered in a general and overarching way under the IAASB’s proposed ISSA 5000.)
- The provisions addressing the different reporting boundaries in the context of a sustainability assurance engagement, which deal with independence considerations when assurance work

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<sup>50</sup> [Use of Experts Exposure Draft](#)

<sup>51</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

is performed at, or with respect to, a value chain entity (Sections 5407 and 5700).

160. For sustainability assurance practitioners who are neither PAs nor other practitioners performing engagements under assurance standards that require compliance with the extant Code, the proposed IESSA will represent a new and comprehensive set of ethics (including independence) standards. It is likely that implementing the proposed IESSA will result in increased costs, including with respect to the deployment of new (or significantly updated) policies and procedures, awareness raising and training initiatives. The IESBA plans to issue non-authoritative guidance material for those who are not familiar with the Code to assist them in navigating the IESSA.
161. Regarding the revisions to the extant Code to reflect sustainability reporting considerations, the IESBA anticipates that there will be non-trivial implementation costs relating to education and training for PAs. This is because of the need for them to fully appreciate the nature and extent of the new ethical expectations relating to the proposed changes to the Code to reflect sustainability reporting considerations.
162. The IESBA also expects costs related to adoption and implementation for national standard setters, professional accountancy organizations and other stakeholders, including translation where needed, and education and training efforts.

## **VI. PROJECT TIMELINE AND EFFECTIVE DATE**

163. The indicative timeline for the completion of this project is set out below.

<b>Indicative Timing</b>	<b>Milestone</b>
May 2024	<ul style="list-style-type: none"><li>• Closing date for comments to the ED</li></ul>
June 2024	<ul style="list-style-type: none"><li>• Preliminary highlights of selected ED responses to IESBA</li></ul>
September 2024	<ul style="list-style-type: none"><li>• Full IESBA review of respondents' comments and first read of revised proposals</li></ul>
October 2024	<ul style="list-style-type: none"><li>• Discussion of significant matters arising on exposure with IESBA Stakeholder Advisory Council (SAC)</li></ul>
December 2024	<ul style="list-style-type: none"><li>• IESBA approval of final pronouncement</li></ul>

164. The IESBA will coordinate with the IAASB to agree on the effective dates for the IESBA's final pronouncement and ISSA 5000.

## **VII. GUIDE FOR RESPONDENTS**

165. The IESBA welcomes comments on all matters addressed in the ED, but especially the matters identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

## Request for Specific Comments

166. The IESBA welcomes comments on the following specific matters. Where a respondent disagrees with a proposal, it will be helpful for the respondent to explain why and to provide suggestions for other ways to address the particular matter.

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

#### **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]*

#### **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]*
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]*

#### **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]*

#### **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]*
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]*

### ***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]*

### ***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?
- (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)?
- (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]*
- (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")?

### ***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]*

### ***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]*
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]*
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?

- (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]

#### **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]
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?
- (b) Are there any other NAS that Part 5 should specifically address 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]

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

### *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]
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]

### **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]
  - (b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]
  - (c) Other proposed revisions? [See paragraph 155 of this document]
23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

### **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?

### **Using the Work of an External Expert**

Certain provisions in Section 5320 as well as Section 5390 of the proposed IESSA (in Chapter 1), and the revisions to "Using the Work of Others" in Section 220 and "Using the Work of an Expert" in Section 320, in the extant Code (in Chapter 4), all highlighted in grey, were developed under the Use of Experts project. See [Using the Work of an External Expert](#) Exposure Draft for the questions relating to these aspects. Any feedback should be provided in response to that Exposure Draft.

### **Request for General Comments**

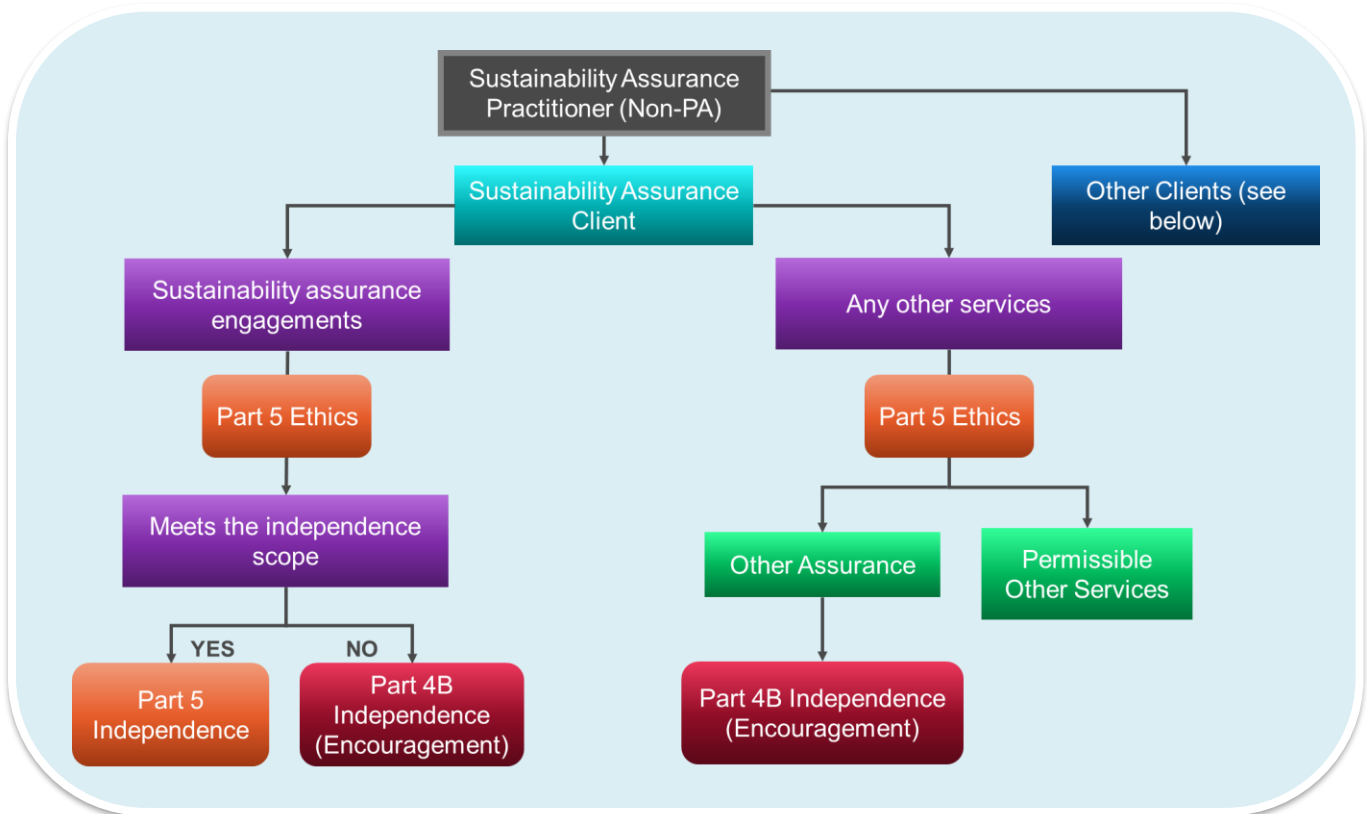
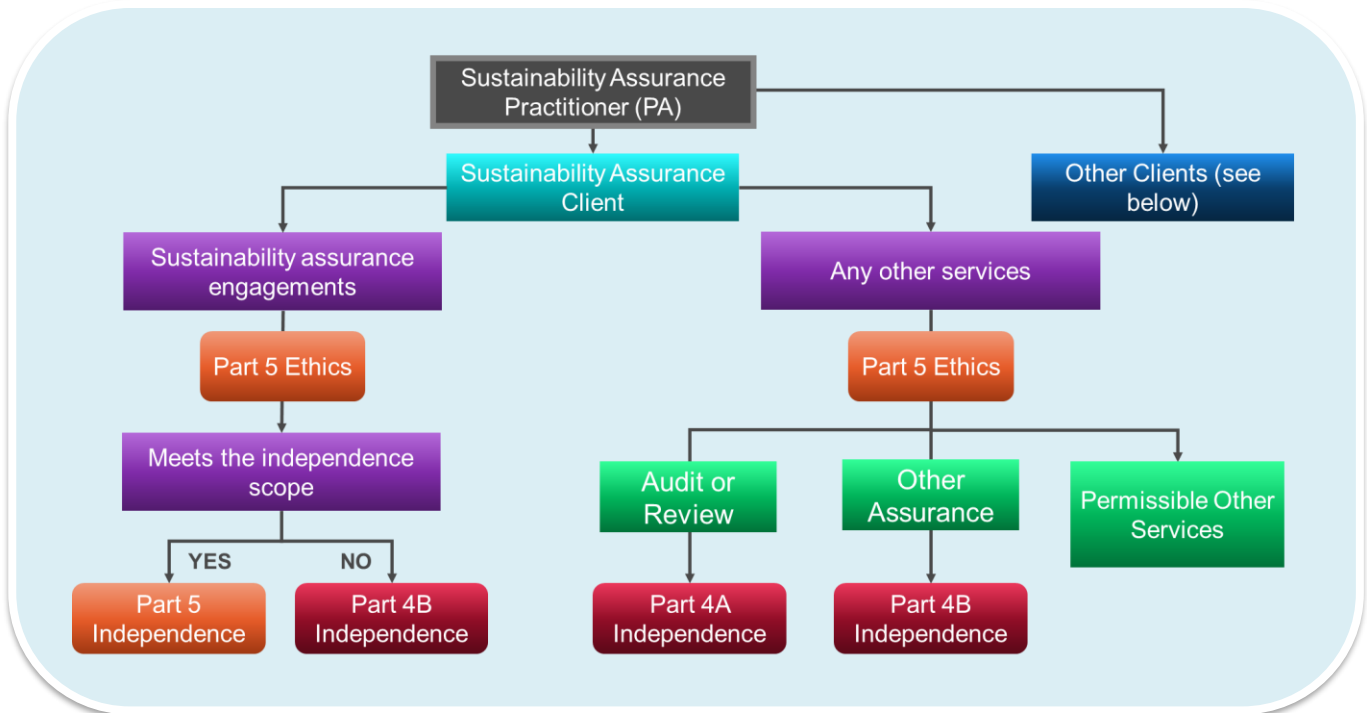
167. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- (a) *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
  - (b) *Regulators and Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and oversight communities.
  - (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.
  - (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.

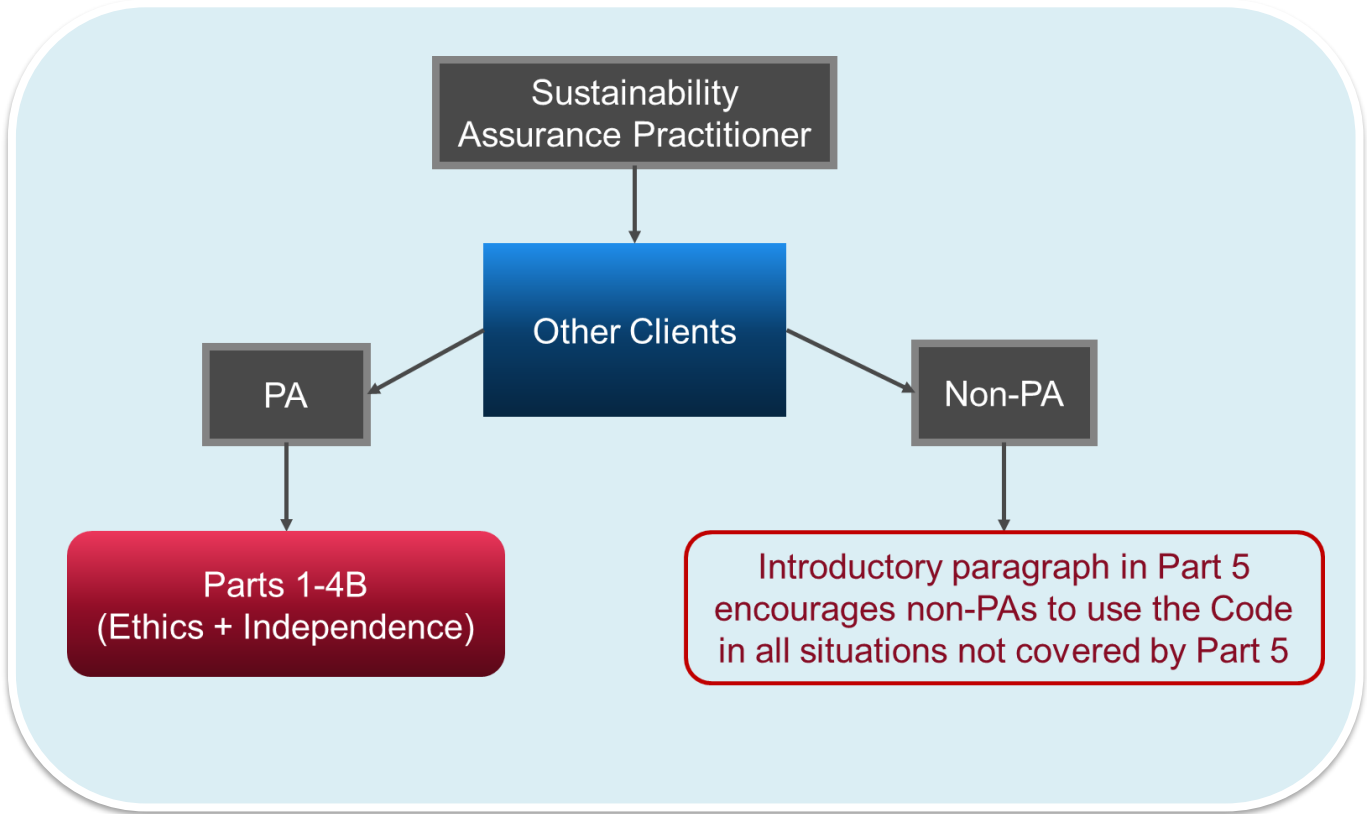
- (e) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.



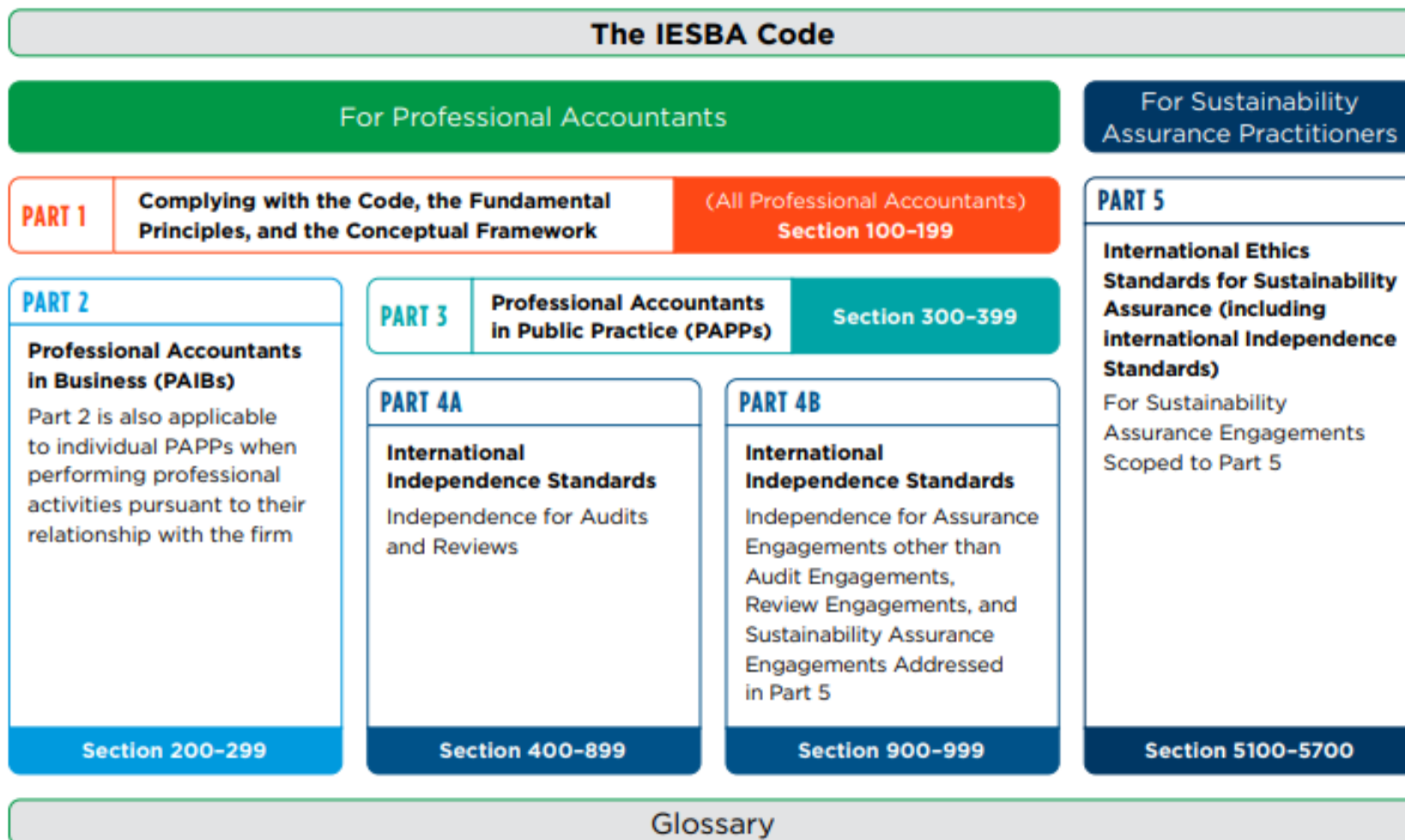
## APPENDIX 1

The diagrams below illustrate the inter-relationship between ethics and independence standards for sustainability assurance practitioners (PAs and non-PAs):

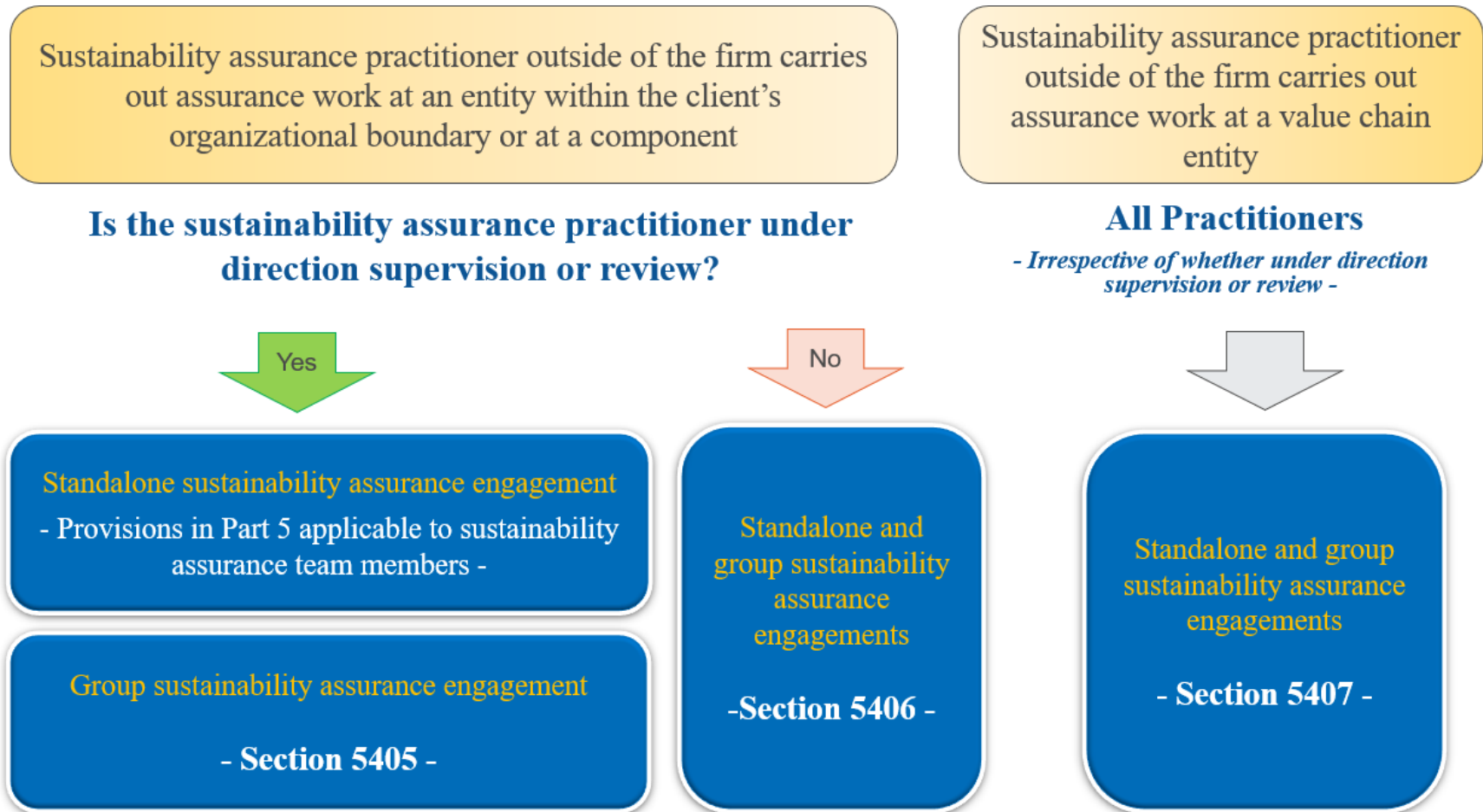




The diagram below illustrates the proposed structure for the Code including the extant Parts 1 to 4B and the new Part 5.



The diagram below explains the applicable sections in the IIS of Part 5 when the sustainability assurance practitioner performing the sustainability assurance engagement uses the assurance work of another sustainability assurance practitioner for the purposes of that engagement:



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**Exposure Draft**  
**January 2024**  
*Comments due: April 30, 2024*

*International Ethics Standards Board  
for Accountants®*

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# Using the Work of an External Expert

**IESBA**

International  
Ethics Standards  
Board for Accountants®

## About the IESBA

The [International Ethics Standards Board for Accountants](#)® (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#) (IFEA). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

The structures and processes that support the operations of the IESBA are facilitated by the International Foundation for Ethics and Audit™ (IFEATM).

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## REQUEST FOR COMMENTS

This Exposure Draft, *Using the Work of an External Expert*, was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **April 30, 2024**.

Respondents are asked to submit their comments electronically through the IESBA website using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, Program and Senior Director, at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

# USING THE WORK OF AN EXTERNAL EXPERT

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## EXPLANATORY MEMORANDUM

### I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) relating to using the work of an external expert.
2. The IESBA unanimously approved the proposed provisions for exposure at its December 2023 meeting. The proposals include three new sections to the Code addressing using the work of an external expert – proposed Section 390 for professional accountants (PAs) in public practice (PAPPs), proposed Section 290 for PAs in business (PAIBs), and proposed Section 5390 for sustainability assurance practitioners (SAPs). The explanations in this memorandum apply equally to all three proposed new sections, unless otherwise specified.
3. The proposed Section 5390 is an integral part of the Exposure Draft (ED), *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (Sustainability ED)*, and, therefore, should be read in conjunction with that ED.

### II. Background and Overview

#### A. The Impetus for the Project and its Objectives

4. The IESBA's deliberations in developing the revised definition of "engagement team" in the Engagement Team – Group Audits (ET-GA) project raised questions, including from the Public Interest Oversight Board (PIOB), as to whether external experts<sup>1</sup> should be subject to independence requirements in audit and other assurance engagements. The PIOB has observed the growing involvement of experts in areas such as estimates and technology and, in particular, in sustainability. The PIOB has, therefore, commented that it is in the public interest to assess whether the nature of the work of experts and their contribution to the audit/assurance opinion should trigger a requirement for them to be subject to independence requirements, similar to other individuals who are part of the engagement team.<sup>2</sup>
5. In addition, responses to the IESBA's April 2022 strategy survey and the ET-GA ED, feedback from the IESBA's April 2022 Tax Planning Global Roundtables, as well as the IESBA Technology Working Group's Phase 2 fact-finding work recognized the importance of reviewing the ethics, including independence, issues arising from a PA's use of an expert. In particular, comments, observations or questions raised included the following:
  - Whether the role and independence of experts providing sustainability-related services are sufficiently addressed in the Code. It was suggested that the IESBA consider the impact of the increasing use of experts from the Code's perspective, particularly in relation to sustainability-related services.
  - Preparing and presenting financial and, in particular, non-financial information (e.g., sustainability information) often involves the assistance of, or reliance upon, technology experts. The question arose as to the factors PAs should consider to gain confidence that the work of a

<sup>1</sup> External experts are specifically excluded from the definitions of Engagement Team, Audit Team and Assurance Team in the Code because they are not under the direction, supervision and review of the firm.

<sup>2</sup> See page 8 of the PIOB's [November 2022](#) Public Interest Issues List on IESBA Projects.

technology expert was objective and the work of such expert could be used and relied upon to make ethical decisions and whether the Code should serve as a basis for PAs to make such an assessment.

- PAs who are not equipped with the necessary expertise or experience to advise the client or employing organization in certain situations need to rely upon the judgments of other firms or experts with the appropriate competencies. PAs would then need to assume that these firms or experts will operate within a similar ethical framework as the PAs.
6. Further, the IESBA recognized the need to consider the ethics, including independence, implications of:
- PAs in public practice who use the work of experts in providing non-assurance services (NAS).<sup>3</sup>
  - Non-PAs using the work of experts in the context of the development of ethics, including independence, standards for all sustainability assurance practitioners in the proposed Part 5 of the Code.
  - Using experts in sustainability assurance engagements if the Code were to take a framework-neutral approach with respect to the sustainability assurance standards used to perform a sustainability assurance engagement (i.e., not limiting the interoperability of those new standards with just the IAASB's standards).
7. Given this backdrop, in December 2022, the IESBA approved the [project](#) to address the ethics, including independence, considerations relating to the use of all experts, whether employed or externally engaged (i.e., hired) by an employing organization or firm in (a) audit, sustainability, and other assurance engagements, (b) the provision of professional services other than audit and assurance services, and (c) the preparation of financial and non-financial information. A discussion of the IESBA's additional deliberations about the scope of the proposals is set out in Section (II)(C) below.

#### **B. Highlights of Proposed Provisions Relating to Using the Work of an External Expert**

8. Using the work of an external expert might create threats to a PA's or SAP's compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care. This is because there might be potential over-reliance on the external expert's work by the PA or SAP, and hence threats to a PA's or SAP's compliance with the fundamental principles might be created if the external expert and its work are not appropriately evaluated.
9. The proposed new sections 390, 290 and 5390,<sup>4</sup> therefore establish an ethical framework to guide PAs in public practice and in business, and SAPs, respectively, in evaluating whether an external expert has the necessary competence, capabilities and objectivity (CCO) for the PA or SAP to use the expert's work for the intended purposes. In particular, if the PA or SAP deems that the external expert is not competent, capable or objective, the Code would prohibit the PA or SAP from using the external expert's work. The proposals also include provisions to guide a PA or SAP in applying the Code's conceptual framework when using the work of an external expert.

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<sup>3</sup> Paragraph 62 of [IESBA Consultation Paper: Proposed IESBA Strategy and Work Plan, 2024 to 2027](#)

<sup>4</sup> For SAPs performing sustainability assurance engagements that meet specific criteria, see [Sustainability ED](#).

10. The proposed provisions have been developed on a principles-based approach so that the Code can remain relevant and fit for purpose as business and market practice evolve, particularly regarding the use of external experts in emerging or developing fields as well as in the context of ongoing rapid transformations in technology.
11. The proposals are set out in three new and different sections of the Code, given that there are differences in considerations and risks related to using an external expert for PAPPs, PAIBs and SAPs.
12. Consistent with any other provisions of the Code, the proposed provisions do not override laws and regulations prevailing in a given jurisdiction. Further, extant paragraph 100.7 A1 of the Code remains applicable, i.e., where a jurisdiction has provisions that differ from or go beyond those in the Code, PAs need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

**C. Deliberations Relating to the Scope of the Project**

13. While developing the proposed provisions, the IESBA deliberated three key issues with respect to the scope as set out below, having regard to the project proposal and stakeholder feedback.

*Whether the Proposed Provisions Should Address the Use of Experts Employed by an Employing organization or Firm (“Internal Experts”)*

14. The IESBA’s deliberations highlighted a number of practical challenges that would arise if the proposed provisions were to address internal experts.
15. In particular, PAIBs often use the work of others internal to the employing organization who have specialized competence in specific fields or areas as defined by their roles and responsibilities. The IESBA considered that it would be unduly burdensome to require a PAIB to undertake the CCO evaluation each time the PAIB needs to rely on the work of experts internal to the organization. This recognizes that to work in their roles as experts in their designated fields or areas, the internal experts can be expected to have satisfied their employing organizations’ recruitment criteria and performance assessment on a periodic basis. The IESBA also noted that for internal experts within an employing organization, such experts are producing information from management’s perspective and, therefore, would not be “objective.”
16. For internal experts employed by a firm whose work is used in an audit or other assurance engagement (and who are not members of the engagement team, audit team, assurance team or sustainability assurance team), the IESBA recognized that such individuals would already be subject to (i) the firm’s quality management or other policies and procedures addressing hiring, competence and resourcing, and (ii) the provisions of the Code as the firm is subject to the Code.
17. Accordingly, IESBA is proposing that the scope of the provisions focus on “external experts” only.

*Whether the Proposed Provisions Should Address the Use of the Work of a Management’s Expert Employed by a Client in an Audit or Other Assurance (Including Sustainability Assurance) Engagement*

18. As noted in the ISA 500 (Revised) Exposure Draft,<sup>5</sup> management may employ or engage experts in fields other than accounting (e.g., actuarial, valuation, engineering, or climate change and

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<sup>5</sup> Proposed International Standard on Auditing (ISA) 500, *Audit Evidence*

sustainability) to obtain information necessary to prepare the financial statements.

19. The IESBA believes that work performed by a management's expert comes from the client's perspective, not unlike information or analyses that management might prepare or produce. In addition, management takes full responsibility for the work of any expert management might use to assist in preparing financial statements or reports.
20. Accordingly, for the PA or SAP, the work of a management's expert is just part of the overall information from management that they consider when providing any professional service. This means that from the perspective of the Code, the objectivity of the management's expert would be regarded as being the same as for any other source of information within the client.
21. Therefore, the proposed Sections 390 and 5390 do not address the use of the work of a management's expert. This is explained in proposed paragraphs 390.4 A4(a) and 5390.4 A4(a).

*Should External Experts Used in an Audit or Other Assurance (Including Sustainability Assurance) Engagement be Independent?*

22. The IESBA initially considered requiring external experts to be independent under the Code when their work has a significant influence on the audit or other assurance engagement ("significant influence test.")
23. At the March-April 2023 IESBA global sustainability roundtables, however, the IESBA heard concerns from many participants about such an approach:
  - It was stressed that it would be the presumptive responsibility of the PA or SAP to ensure that if they intend to use the work of an external expert, such external expert is objective, since the PA or SAP has the ultimate responsibility to sign off on the audit or assurance report.
  - The significant influence test would likely lead to challenges in implementability and enforceability as it introduces a level of subjectivity that would lead to inconsistent application. Further, there were questions as to the reasonableness of such an approach as there is a presumption that the engagement team would only engage an external expert when the subject matter is significant.
  - Unlike firms or assurance practitioners who are subject to the Code, external experts are not in the audit or assurance business. Accordingly, the Code is not enforceable on external experts and external experts would not be expected to have designed and implemented, and be operating, extensive systems of quality management to monitor and oversee compliance with independence requirements across their organizations.
24. The IESBA decided to move away from the concept of a significant influence test under which only a limited number of external experts who meet the "significant influence" threshold would be subject to independence requirements. Instead, considering the public interest, the IESBA determined to broaden the scope of applicability of the proposed provisions to all external experts used in audit or other assurance engagements.
25. The IESBA proposes that the evaluation of external experts in an audit or assurance engagement be performed through the lens of objectivity. The approach additionally requires the PA or SAP to evaluate specified interests, relationships, and circumstances relative to the external expert's objectivity. The IESBA believes that this approach will appropriately address the public interest

expectations concerning external experts, while balancing considerations relating to scalability, proportionality and implementability under the Public Interest Framework.

26. Additional considerations about the approach are set out in Section (V)(A) below.

**D. Interactions with the IESBA’s Sustainability Project**

27. As highlighted in the project proposal, using experts will often be critical in preparing and presenting sustainability information, as well as in the assurance of such information. As such, this project is being progressed in tandem with the Sustainability Project.
28. The IESBA’s [Sustainability Reference Group](#) and Sustainability Work Stream 2 have considered and provided input to the proposals in Section 5390 regarding the use of external experts in sustainability assurance engagements.

**E. IAASB-IESBA Coordination**

29. The development of the proposals was closely coordinated with the International Auditing and Assurance Standards Board (IAASB) to maximize alignment and interconnectivity between the proposals and the IAASB’s standards to the greatest extent possible. In particular, in developing the proposals, the IESBA has endeavored to avoid (a) conflict with ISA 620<sup>6</sup> or other relevant IAASB standards and the ISSA 5000<sup>7</sup> ED, and (b) incorporating provisions relating to the performance of audit or assurance procedures in the proposals versus encapsulating ethics-related considerations. In this regard, IAASB Staff have provided overarching comments and suggestions in relation to the proposals in Section 390.
30. Additionally, the IAASB has included in its Strategy and Work Plan for 2024-2027, a project to consider possible narrow scope amendments to IAASB standards as a result of the finalization of this project. The IAASB will also take into account developments in this project during the finalization of ISSA 5000.

**F. Consideration of Other Stakeholder Inputs**

31. The project has also been informed by feedback from various stakeholders since its inception, including:
- Four global roundtables held in Paris, Sydney, Singapore and New York with over 140 senior-level participants from 84 organizations across a wide range of stakeholder categories.
  - The IESBA Consultative Advisory Group (CAG).
  - The IESBA-National Standard Setters (NSS) Liaison Group.
  - The Forum of Firms (FoF).
  - The IFAC Small and Medium Practices Advisory Group (SMP AG).
  - The International Organization of Securities Commissions Committee 1 Auditing Subcommittee (IOSCO C1).
  - The International Forum of Independent Audit Regulators’ Standards Coordination Working

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<sup>6</sup> ISA 620, *Using the Work of an Auditor’s Expert*

<sup>7</sup> Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

Group (IFIAR SCWG).

- The Committee of European Auditing Oversight Bodies (CEAOB).

### III. Definitions

#### A. Definition of Expertise

32. ISA 620 defines expertise as knowledge, skills and experience.
33. However, the IESBA observed some inconsistency between the definition in ISA 620 and how "expertise *and/ or* experience" is used or referred to in the Code. For example:
- Extant paragraph 120.5 A5: "The accountant's *expertise and experience* are sufficient to reach a conclusion."
  - Extant paragraph R230.3: "A professional accountant shall not intentionally mislead an employing organization as to the level of *expertise or experience* possessed."
34. Furthermore, the IESBA observed that the concept of "experience" in the Code appears to be used as a factor separate from determining whether a PA had sufficient knowledge, training, qualifications, or competence. For example:
- Extant paragraph R115.2: "... A professional accountant shall be honest and truthful and shall not make...exaggerated claims for the services offered by, or *qualifications or experience* of, the accountant..."
  - Extant paragraph 230.3 A1: "The principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient *training or experience*."
  - Extant paragraph 300.7 A4: "The client has *competent employees with experience* and seniority to make managerial decisions."
  - Extant paragraphs 524.4 A4/924.4 A4: "...Assigning to the audit/assurance team individuals who have *sufficient experience* relative to the individual who has joined the client."
  - Extant paragraph R540.9: "...When a firm has only a few people with the *necessary knowledge and experience* to service as a key audit partner..."
35. The IESBA also considered jurisdictional literature such as [PCAOB AS 1210: Using the Work of an Auditor-Engaged Specialist](#): "A specialist is a person (or firm) possessing *special skill or knowledge* in a particular field other than accounting or auditing."
36. The IESBA further consulted various dictionary definitions of "expert" and noted that those definitions generally do not include the element of experience:

Dictionary	Noun	Adjective
Cambridge	A person with a high level of <i>knowledge or skill</i> relating to a particular subject or activity.	Having or showing a lot of <i>knowledge or skill</i> .
Merriam-Webster	One with the special <i>skill or knowledge</i> representing <i>mastery</i> of a particular subject.	Having, involving, or displaying special <i>skill or knowledge</i> derived from <i>training or experience</i> .



Dictionary	Noun	Adjective
Oxford Languages	A person who has a comprehensive and <i>authoritative knowledge of or skill</i> in a particular area.	Having or involving <i>authoritative knowledge</i> .

37. Accordingly, the IESBA determined to propose a definition of "expertise" that refers only to knowledge and skills. The IESBA's view is that the element of experience is a complementary factor that strengthens confidence in the expert, besides the expert's expertise (knowledge and skills). Furthermore, skills are inherently also developed through experience.
38. The IESBA considered whether consequential amendments are necessary where the term "expertise" is used in conjunction with the term "knowledge" or "skills" in the extant Code. However, the IESBA viewed that in those extant provisions where the terms "knowledge" and "skills" are being referred to, they are used to convey a broader meaning of knowledge or skills (for example, knowledge of the client, industry, etc.) rather than one that is limited to knowledge or skills in a particular field (the definition of expertise).

## B. Definitions of Expert and External Expert

### *Expert*

39. The IESBA proposes to introduce a new definition of "expert" which is broad and anchored relative to the PA's or SAP's competence.
40. This approach recognizes that an expert might need to be used when the PA or SAP lacks sufficient expertise to perform a professional activity or service. The PA or SAP might seek an expert to assist them in such circumstances. The concept of reaching out to others who have the relevant expertise is rooted in the Code. For example, the Code refers to using experts in extant paragraphs 400.11 (in the context of an audit engagement) and 330.5 A1 (in the context of referring a client to an expert). It also refers to consulting with others with expertise, for example, in extant paragraph 120.5 A5.

### *External Expert*

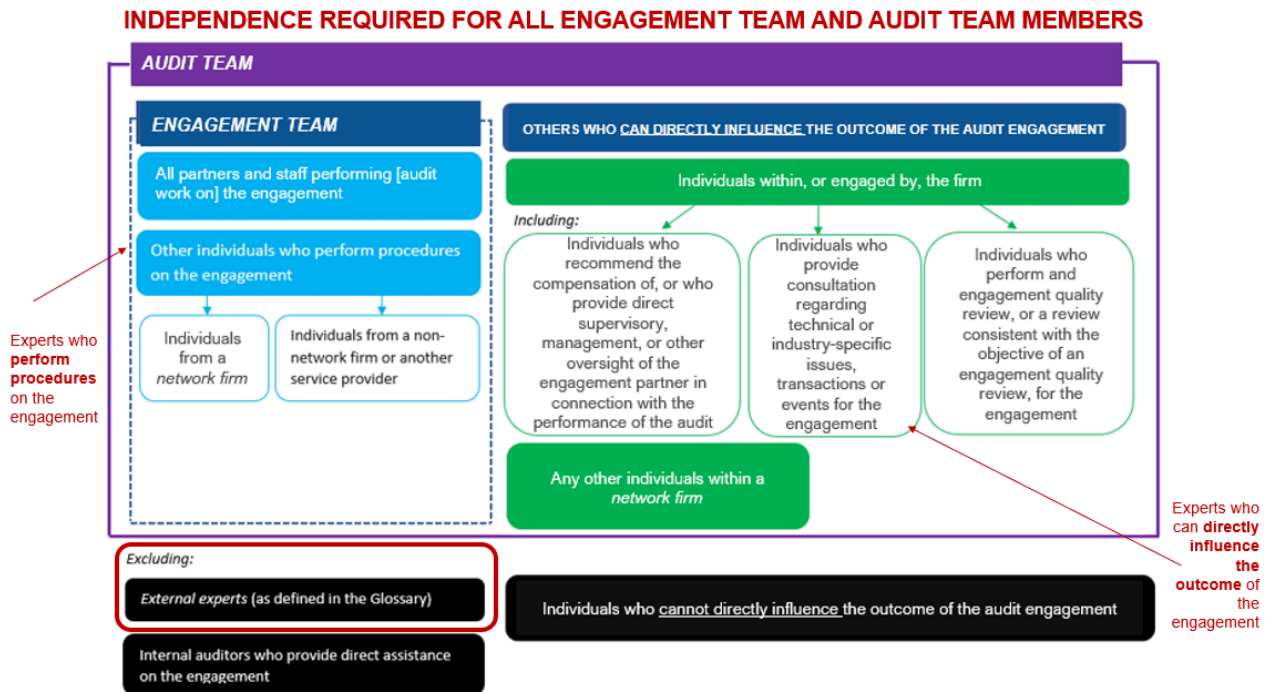
41. The IESBA proposes to revise the extant definition of an external expert<sup>8</sup> to:
- Explicitly refer to external experts who are engaged (i.e., hired) by an employing organization, firm or SAP. This presents a clearer contrast against experts that might be internal to the employing organization or firm.
  - Distinguish between external experts used in an audit engagement vs an assurance (including sustainability assurance) engagement.

See the proposed changes in mark-up in the Glossary.

42. Regarding audit engagements, the IESBA noted the basic expectation for, and conceptual underpinning of, a PA to have expertise in accounting or auditing. Therefore, when an external expert is used in an audit engagement, such external expert's work is used because it consists of expertise outside of accounting or auditing. Accordingly, an external expert is different from:

<sup>8</sup> "An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate evidence."

- Individuals who perform audit procedures (who generally will have audit expertise) who are part of the engagement team (ET) and are subject to independence.
  - Individuals with expertise in accounting or other technical or industry-specific matters who provide consultations. Those individuals are part of the audit team (AT) and are subject to independence.
43. The different roles of experts in an audit engagement are illustrated in a diagram contained in the ET-GA Basis for Conclusions, as set out below:



44. Regarding assurance (including sustainability assurance) engagements, the IESBA noted the basic expectation for, and conceptual underpinning of, a PA or SAP to have expertise in assurance. Therefore, when an external expert is used in an assurance (including sustainability assurance engagement), such external expert's work is used because it consists of expertise outside of assurance. The terms are also aligned with the concepts in the IAASB's auditing and assurance standards and its proposed ISSA 5000.
45. Regarding NAS engagements, an external expert is simply an expert engaged (i.e., hired) by a PA or SAP, who has expertise that is outside the PA's or SAP's competence.

**C. Distinguishing Between AT Members and External Experts**

46. In its deliberations, the IESBA revisited the question of how to distinguish between individuals who are providing consultation regarding technical or industry-specific issues, transactions or events for the engagement versus external experts. The former are audit, assurance, or sustainability assurance team members, as the case may be, and subject to the Code's *independence* requirements. The latter are not but they will be subject to the proposed *ethics* provisions in Sections 390 and 5390, as applicable.
47. The IESBA observes that, in response to the extensive discussions around this question during the

ET-GA project, IESBA Staff have already issued a few questions and answers (Q&As) to address the matter in the IESBA Staff ET-GA Questions & Answers publication.<sup>9</sup>

*AT Members Who Can Directly Influence the Outcome of the Engagement*

48. Additionally, under ISQM 1<sup>10</sup> and ISA 220 (Revised),<sup>11</sup> the outcome resulting from consultation regarding a technical or industry-specific issue, transaction or event for the engagement must be implemented. This is because, as set out in ISQM 1 and ISA 220 (Revised):
- The firm must establish quality objectives that address the performance of quality engagements, including in relation to consultations on difficult or contentious matters, and that such consultations are undertaken and the conclusions agreed are implemented.<sup>12</sup>
  - The engagement partner is required to, among other matters, take responsibility for undertaking appropriate consultation and to determine that the nature and scope of, and conclusion resulting from, such consultations are agreed with the party consulted, and that the conclusion agreed has been implemented.<sup>13</sup>
49. The consultation would, therefore, provide an opinion or advice to enable the PA, assurance practitioner or SAP to reach a conclusion on audit or assurance work they have performed on the particular technical or industry-specific issue, transaction or event. In these circumstances, the IESBA observes that the engagement partner must ensure that the conclusion from the consultation is agreed and implemented but would not be expected to be able to override the opinion or advice received from the party consulted.
50. Therefore, consultations performed as part of applying ISQM 1 and ISA 220 (Revised) directly influence the outcome of the engagement, and individuals who provide such consultations are part of the audit, assurance or sustainability assurance team, as the case may be.

*External Experts*

51. Before the work of an external expert can be used for purposes of an audit or assurance (including sustainability assurance) engagement, the PA needs to perform procedures over such work to determine its sufficiency and appropriateness as evidence. Accordingly, the PA can decide not to use the external expert's work as part of the evidence supporting the audit or assurance opinion.
52. Thus, an external expert cannot directly influence the outcome of an engagement and is, therefore, not part of the audit, assurance or sustainability assurance team.
53. For illustrative purposes, Appendix 1 provides a flowchart to assist stakeholders in distinguishing between AT members and external experts in the context of an audit engagement.

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<sup>9</sup> [ET-GA Q&As](#), questions 8 and 9

<sup>10</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

<sup>11</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

<sup>12</sup> ISQM 1, paragraph 31(d)

<sup>13</sup> ISA 220 (Revised), paragraph 35

#### IV. Agreeing the Terms of Engagement

54. With respect to agreeing the terms of engagement with an external expert whose work will be used in an audit or other assurance engagement, the IESBA considered a few stakeholder questions about whether it would be necessary to provide the guidance relating to agreeing the terms of engagement with respect to using the work of an expert, given that the IAASB's standards already address this.
55. Upon due deliberation, the IESBA agreed that such guidance would be appropriate from an ethics perspective. In particular:
- The guidance would facilitate the PA's evaluation of CCO for experts used in NAS and also in the context of sustainability assurance engagements addressed in the proposed Part 5 of the Code and performed by SAPs who might be applying assurance standards other than the IAASB's standards.
  - In the context of an audit or other assurance engagement, it is important to highlight that in agreeing the terms of engagement with the external expert, a PA or SAP should also agree on the expert's provision of information necessary to facilitate the PA's or SAP's evaluation of the expert's objectivity.
56. Taking into account input from IAASB staff, proposed paragraph R390.5 therefore requires the PA to agree the terms of engagement with the external expert *"to the extent not otherwise addressed by law, regulation or other professional standards."* This avoids duplication with law, regulation, or other professional standards such as the IAASB standards which may already address the PA's responsibilities relating to agreeing the terms of engagement with the expert. A similar proposal is contained in paragraph R5390.5 for sustainability assurance engagements addressed in the proposed Part 5 of the Code.
57. Specific to agreeing the terms of engagement with an external expert whose work will be used in a NAS engagement, the IESBA considered a few stakeholder questions as to whether it would also be necessary to agree the provision of information needed from the external expert for NAS engagements to facilitate the evaluation of objectivity under proposed paragraph 390.6 A4.
58. The IESBA's view is that proposed paragraph 390.6 A6 already contains sufficient application material to guide the PA or SAP to obtain information to evaluate the external expert's objectivity in a NAS context. It would not be necessary for the PA or SAP to request information from the external expert for NAS engagements, unlike in an audit or sustainability assurance engagement under proposed paragraphs R390.8 and R5390.8. For example, under proposed paragraphs 390.6 A4 and 390.6 A6, information concerning the external expert's objectivity can be obtained from inquiry or discussion with others and review of published materials.

#### V. Evaluating an External Expert's Competence, Capabilities and Objectivity

##### *Proposed Paragraphs R390.6 to R390.12 and Related Application Material*

59. Proposed paragraph R390.6 requires a PA to evaluate whether the external expert has the necessary CCO. This is conceptually aligned with the existing provisions in ISA 620<sup>14</sup> and ISAE 3000 (Revised).<sup>15</sup> The IESBA believes that whether an external expert has the necessary CCO is also relevant to a

<sup>14</sup> ISA 620, *Using the Work of an Auditor's Expert*

<sup>15</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

PAPP's and PAIB's compliance with the fundamental principles of the Code in performing other professional services (i.e., NAS engagements) and professional activities, respectively.

60. The IESBA notes that, consistent with the application of the conceptual framework, this required evaluation will involve the PA (a) having an inquiring mind, (b) exercising professional judgment, and (c) using the reasonable and informed third party test. In particular, when applying the proposed paragraph R390.6, the PA's exercise of professional judgment would be essential to weigh all the relevant CCO factors against the specific facts and circumstances of the external expert. For example, immaterial and insignificant interests, relationships or circumstances should generally not result in the PA or SAP concluding that the external expert is not objective.
61. Application material in proposed paragraphs 390.6 A2 to A6 provides relevant factors that could be considered in the required evaluation as well as guidance as to where to obtain the information.
62. For external experts used in an audit or other assurance engagement, given the heightened public interest expectations from stakeholders, additional requirements and application material with respect to the evaluation required by proposed R390.6 are set out in proposed paragraphs R390.8 to R390.11 (see proposed paragraph 390.7 A1). See also further discussion in Section (V)(A) below.
63. The IESBA view is that there is no safeguard against threats if an external expert does not satisfactorily pass the CCO evaluation. Accordingly, proposed paragraph R390.12 prohibits a PA from using the external expert's work if:
  - (a) The PA is unable to obtain the information needed for the accountant's evaluation of the external expert's CCO; or
  - (b) The PA determines that the external expert is not competent, capable or objective.
64. Similar provisions are set out in proposed Section 5390 for SAPs in the context of sustainability assurance engagements addressed in the proposed Part 5 of the Code.

#### *Timing of the CCO Evaluation*

65. The IESBA also considered whether the CCO evaluation under proposed paragraphs R390.6 and R390.12 should be concluded before the external expert starts the work (and therefore prior to agreeing to the terms of engagement with the external expert in proposed paragraph R390.5). The IESBA's view is that in practice, it may not be practicable to wait until the CCO evaluation has been completed before engaging the external expert as there may be unavoidable constraints, such as a tight window within which an external expert can complete the work, time needed for the external expert to secure the information requested for the CCO evaluation, etc.
66. Therefore, the IESBA is proposing that the Code does not preclude the external expert from beginning the work while the CCO evaluation proceeds simultaneously, provided that the external expert has agreed to the terms of engagement to provide all the information necessary to facilitate the evaluation. Proposed paragraph R390.6 is drafted in such a way as to allow for that possibility from an operability perspective. This wording is aligned with ISA 620, paragraph 9, "*The auditor shall evaluate whether the auditor's expert has the necessary CCO for the auditor's purposes.*"

#### *Consideration of Safeguards or Exemptions*

67. External experts can be involved in a broad array of fields, ranging from emerging or niche ones to those with more established or generally accepted practices or standards. In addition, the availability

of external experts might vary in different jurisdictions, and some jurisdictions might not have external experts who can satisfactorily pass the CCO evaluation, leading to a limited number or lack of experts who can be used.

68. In this regard, the IESBA deliberated whether any safeguards or exemptions are possible regarding the prohibition on using the work of an external expert if the expert does not satisfactorily pass the CCO evaluation. For example, the IESBA explored whether transparency to relevant stakeholders, such as the users of the audit or assurance report or those charged with governance, might be a safeguard to address the threat of using an external expert who is not objective in an audit or other assurance (including sustainability assurance) engagement.
69. However, the IESBA came to the view that if an external expert is not objective, the work of such expert cannot be used in any professional service or activity. In particular, introducing transparency as a mitigating action against threats to the expert's objectivity could create an "easy out" and shift the burden and responsibility to evaluate the objectivity of the external expert from the PA to stakeholders.
70. The IESBA considers that ultimately, an external expert's competence, capabilities and objectivity cannot be less relevant or lower in jurisdictions or fields with limited experts. The IESBA notes that where it is determined that there are no external experts available in a particular field or jurisdiction, the PA or SAP could consider:
  - Using an expert from another jurisdiction.
  - Consulting with the appropriate regulatory or professional body and ascertain the proper next steps.
71. The IESBA also observed that limitations in the availability of experts are a matter of timing as the market capacity will gradually adjust to meet the demand. Therefore, in finalizing the provisions, the IESBA will consider whether to develop appropriate transitional provisions while being cognizant of the need not to lower the bar regarding an expert's competence, capabilities and objectivity.
72. Finally, in relation to external experts used in an audit or other assurance engagement, a few stakeholders observed that ISA 620, paragraph 13, allows for additional procedures to be performed by the PA or for additional work to be performed by the expert, should the auditor determine that the auditor's expert's work is inadequate for the auditor's purpose. These stakeholders questioned whether, as an alternative to the prohibition under paragraph R390.12, the proposals should also allow for additional procedures to be performed by the PA if the external expert is determined not to satisfactorily pass the CCO evaluation.
73. In this regard and taking into account input from IAASB staff, the IESBA noted that ISA 620 is not explicit on whether the auditor can use the work of an auditor's expert if that expert does not satisfactorily pass the CCO evaluation. Instead, ISA 620, paragraph 13, discusses what the auditor can do if the work of the external expert is not adequate. The IESBA considers that these are two separate issues, one being an ethical issue and the other being a performance matter.
74. Therefore, the IESBA agreed that the proposed prohibition should remain with no qualification. Recognizing stakeholders' heightened expectations in the context of an audit or other assurance engagement, the proposals now explicitly set out the consequence if the external expert does not satisfactorily pass the CCO evaluation. The proposals therefore fill a gap in the Code where there was no guidance previously.

**A. External Experts Used in an Audit or Other Assurance (Including Sustainability) Engagement***Approach*

75. Given the heightened public interest expectations in relation to external experts used in an audit or other assurance (including sustainability) engagement, the IESBA deliberated whether to take an objectivity or independence approach for such experts (see paragraphs 22 to 25).
76. The IESBA concluded to take an objectivity<sup>16</sup> approach given that (i) external experts who are not subject to the direction, supervision and review of the firm will not have systems of quality management in place to monitor and oversee compliance with independence requirements, (ii) it would not be in the public interest for the Code to constrain the supply of external experts by imposing undue cost and burden on such experts to design, implement and operate such systems of quality management, (iii) it is the responsibility of the PA under auditing or assurance standards to be satisfied that if the PA intends to use the work of an external expert, such external expert is objective, and (iv) the Code does not directly apply to external experts, who in the context of their work, are not assurance providers. The IESBA therefore agreed that the onus should be on the PA to evaluate the external expert's objectivity, with the key principle being that a PA should not use the work of an external expert if the expert is not objective.
77. Therefore, to address stakeholders' heightened public interest expectations in relation to external experts used in audit or other assurance engagements, the IESBA proposes an approach that, in addition to the basic evaluation of the objectivity of an external expert in the context of any professional service under proposed paragraphs 390.6 A4 and A6, requires a PA to include specific interests, relationships and circumstances in the evaluation of the external expert's objectivity.
78. More specifically, to strengthen the considerations regarding the external expert's objectivity in an audit or other assurance context:
- Proposed paragraph R390.8 requires the PA to request the external expert to provide, in relation to the entity at which the expert is performing the work and with respect to the period covered by the audit or assurance report and the engagement period, information about specific interests, relationships and circumstances between the external expert and the entity.
 

The information set out in proposed paragraph R390.8(a) to (m) draw from the independence attributes in Parts 4A and 4B of the Code. Overall, apart from bullets (i), (k) and (l), the bullets broadly align with the independence attributes set out in Parts 4A and 4B of the Code. The IESBA is proposing to include bullets (i), (k) and (l) because it believes these are relevant and necessary in order for the PA to be able to evaluate and conclude on the expert's objectivity.

The IESBA proposes that, after receiving such information, the PA evaluate the expert's objectivity according to proposed paragraph R390.6, as detailed in paragraphs 59 to 64 above.
  - Proposed paragraph R390.11 requires the PA to request the expert to disclose, in relation to the period covered by the audit or assurance report and the engagement period, information about interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organization and the client. For example, this could include:

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<sup>16</sup> Extant paragraph 120.15 A1: "...Independence is linked to the fundamental principles of objectivity and integrity..."

## EXPLANATORY MEMORANDUM

- Any direct financial interest or material indirect financial interest in the client held by the external expert, their immediate family, or the external expert's employing organization.
- Any interests or relationships of the external expert, their immediate family or the external expert's employing organization with the client and those entities over which it has direct or indirect control.
- Any conflicts of interest the external expert, their immediate family or the external expert's employing organization might have with the client.

The IESBA proposes that, after receiving such information, the PA evaluate the expert's objectivity in accordance with proposed paragraph R390.6, as detailed in paragraphs 59 to 64 above.

This proposed requirement recognizes that if the expert has an interest in, or relationship with, the client, there is a risk that it might influence the expert to produce a 'favorable' result for the entity as the PA will use the expert's work for purposes of the audit or other assurance engagement. The requirement therefore covers all possible interests, relationships and circumstances that might create an unacceptable level of threat to the expert's objectivity.

The proposed requirement also focuses the request on the external expert only (rather than both the expert and the client) to take into account that at times, audit procedures might require that the use of an expert (e.g., for investigative purposes) should be kept confidential and not disclosed to the client. As such, proposed paragraph 390.11 A2 clarifies that in applying paragraph R390.11, there might be situations where the PA might not want to inquire with the client about interests, relationships or circumstances concerning the expert used. However, it also highlights that inquiring with the client is a possible source of information about the matters set out in proposed paragraphs R390.11 and 390.11 A1.

79. If the PA concludes that an external expert is not objective based on the evaluation of these independence attributes, the PA is prohibited from using the work of the external expert (see proposed paragraph R390.12).
80. A similar approach is set out in proposed Section 5390 for SAPs in the context of sustainability assurance engagements addressed in the proposed Part 5 of the Code.
81. The IESBA considered the proposed time period for which the external expert would be required to provide the information, i.e., the period covered by the audit or assurance report and the engagement period, and whether the proposed period should be the period covered by the financial statements and the engagement period as per Parts 4A and 4B. However, the IESBA agreed to retain the proposed period since (i) these proposed sections would also cover engagements other than audits of financial statements, and (ii) there could indeed be circumstances where the period covered by an assurance report would be longer than that covered by the audit report, in particular, for sustainability engagements. It is not intended, however, that the time period for which the external expert provides the information for the evaluation of its objectivity, is longer than the period for which the PA or SAP is required to be independent in an audit or assurance engagement. (See paragraphs R390.8 – R390.11 and R5390.8 – R5390.11.)
82. To facilitate the practical application of these requirements, proposed paragraphs R390.5 and 390.5 A1 set out that a PA, when agreeing the terms of engagement with the external expert, might consider discussing the PA's expectations regarding the expert's objectivity, including information needed from



the expert to facilitate the PA's evaluation of that objectivity. The IESBA believes that this would help mitigate the potential practical challenge of the expert declining to disclose information about relevant interests, relationships or circumstances after the PA has engaged the expert. Thus, if an external expert refuses to disclose such information when the PA and the expert are seeking to agree to the terms of engagement, the PA can determine not to use the work of such expert. A similar approach is proposed in Section 5390 for SAPs.

83. Overall, the IESBA believes that this approach is balanced, proportionate and operable, and will address the public interest expectations concerning external experts used in an audit or other assurance (including sustainability assurance) engagement.

#### *Scalability*

84. Responsive to stakeholder feedback during the development of the proposals, the IESBA considered whether the approach could be delineated for external experts used in an audit or other assurance engagement depending on whether or not the client is a public interest entity (PIE). However, unlike in the context of independence provisions where the Code can set out specific prohibitions pertaining to PIE audit clients versus non-PIE audit clients, the fundamental principle of objectivity cannot differ for different clients given that it concerns ethical behavior.
85. Nevertheless, the IESBA noted that scalability is already built into the objectivity approach set out in the proposed new Section 390 (and its equivalent Section in the proposed Part 5) as that approach is scaled based on the nature of the engagement (i.e., whether it is an audit or other assurance, including sustainability assurance, engagement) and the PA's evaluation of the expert's interests, relationships and circumstances.

#### *Expectations for the External Expert*

86. In the context of applying these requirements, the IESBA does not expect that an external expert must set up, or have in place, a system of quality management similar to that expected for a firm or assurance practitioner. As noted above, the IESBA does not believe that this would be operable or enforceable. For example, where a PA requests an external expert to disclose any direct financial interest or material indirect financial interest held by the external expert, their immediate family, or the external expert's employing organization in the entity at which the expert is performing work, the IESBA does not expect the external expert to set up an internal monitoring process on the financial interests of all of these parties. Instead, with due notice when agreeing the terms of engagement, the expert is afforded the opportunity to take the appropriate steps, in good faith, to gather the necessary information to disclose to the PA.

#### **B. Consideration of the External Expert's Team**

87. In developing the proposals, the IESBA heard questions from various stakeholders about how the proposals would interact with an external expert's team and organization.
88. The proposed new definition of an external expert pertains to an individual only. In applying the proposed provisions, the PA's evaluation of the expert's CCO is envisioned to be conducted with respect to the individual who oversees the expert work. This takes into account that an expert might have a supporting team (which might include other experts) and that it would be the expert's responsibility to determine what support from the team is needed to perform the work.

89. However, as set out in proposed paragraph R390.9, specifically for external experts used in an audit or other assurance engagement, the IESBA is of the view that objectivity must be evaluated for all individuals on a team that an expert uses to perform the work. This approach recognizes stakeholders' heightened expectations concerning the external expert and any supporting team. It is also consistent with the applicability of the Part 4 independence provisions to all AT members.

**C. General Principle Relating to the Evaluation of Objectivity**

90. The IESBA's view is that the direct threat to the expert's objectivity generally arises from the interests, relationships or circumstances with the entity at which the expert is performing work. Requiring the objectivity of an external expert concerning entities at which the expert is not performing work would be unduly onerous, especially considering that such an expert might not even have systems of quality management in place to monitor such interests, relationships and circumstances. Accordingly, the provisions concerning evaluating the external expert's objectivity focus on the entity at which the expert is performing work.
91. However, the IESBA also notes that certain interests, relationships or circumstances held by the external expert's organization or external expert's immediate family in the entity at which the external expert is performing the work could impact the external expert's objectivity. In applying the proposals, the PA would then need to exercise professional judgment when taking into account such interests, relationships or circumstances involving the expert's immediate family or at the organizational level in evaluating whether the external expert is objective (see, in particular, proposed paragraphs 390.6 A4, R390.8 and 390.11 A1). A similar approach is taken in the proposed Section 5390 for SAPs.

**VI. Other Considerations**

**A. Potential Threats Arising from Using the Work of an External Expert**

92. Proposed paragraph 390.13 A1 explains that threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a PA has satisfactorily concluded that the external expert has the necessary CCO for the PA's purpose.
93. Application material in proposed paragraphs 390.14 A1, 390.15 A1 and 390.16 A1 to A2 contains guidance with respect to identifying, evaluating and addressing threats to the PA's compliance with the fundamental principles when using the work of an external expert.
94. The IESBA notes that the examples of actions to address identified threats listed in proposed paragraphs 390.16 A1 to A2 are not in relation to the evaluation of an external expert's CCO. The examples of actions that might be safeguards as set out in proposed paragraph 390.16 A2 are in relation to threats that might be created when a PA uses the work of an external expert, for example, the threats set out in proposed paragraph 390.14 A1.
95. Finally, in accordance with proposed paragraph 390.1, the IESBA noted that where there are no actions that can eliminate identified threats or safeguards that can reduce the level of the threats to an acceptable level, the PA must decline or end the professional service or activity in accordance with paragraph R120.10(c).
96. Similar considerations are set out in proposed Section 5390 with respect to SAPs performing sustainability assurance engagements addressed in the proposed Part 5 of the Code.

**B. Communicating with Those Charged with Governance and Documentation**

97. The IESBA deliberated various views regarding the use of the term “encourage” in proposed paragraphs 390.20 A1 and 390.21 A2 addressing communication with those charged with governance (TCWG) and documentation, respectively. The views ranged from, on the one hand, an encouragement being too weak from an enforcement perspective to, on the other hand, the proposed provisions on communication with TCWG and documentation not being needed as (i) they are already covered in the provisions for audit and other assurance engagements in the Code, and (ii) it would be challenging from a NAS perspective.
98. The IESBA agreed to retain the two proposed paragraphs as they are generally consistent with how the Code addresses matters of communication with TCWG and documentation in the context of professional services, where the provisions are also encouragements and not requirements. Furthermore, the IESBA considers that such guidance would be helpful for SAPs who are non-PAs in the context of sustainability assurance engagements addressed in the proposed Part 5.

**C. Using the Work of Others**

99. During the development of the proposals, various stakeholders have questioned whether information provided by third-party data providers or other sources of information is work performed by an expert.
100. The IESBA’s view is that individuals or organizations that provide datasets for general purposes, or other general sources of information, are not within the scope of the proposals. Such individuals or organizations include, for example:
- Those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use. This is explained in proposed paragraph 390.4 A4(b).
- The IESBA recognizes that there might be experts within organizations that provide information for general use (e.g., valuations that involve proprietary knowledge). The IESBA, however, considers that such experts are not in the scope of the proposed sections as the PA or SAP does not engage them to use their expertise to perform bespoke work.
- Those within employing organizations or firms (e.g., IT teams) dealing with matters relating to the use of technology and data governance, including maintaining data privacy.
  - Management’s experts (i.e., in the context of ISA 500, ISAE 3000 (Revised), and proposed ISSA 5000).
  - Those who provide sustainability certifications with no assurance elements, and where the PA or SAP is not using the certifications as work to be relied upon as sufficient appropriate evidence in an audit or other assurance engagement.
101. Concerning whether there should be additional guidance developed with respect to using the work of others, the IESBA observed that:
- Extant paragraphs R220.7 and 220.7 A1 already provide guidance on using the work of others.
  - Extant Part 3 of the Code does not address using the work of others. However, extant paragraphs R220.7 to 220.7 A1 are still relevant in Part 3 as a result of the applicability provisions in the Code (i.e., paragraphs R120.4 and R300.5).

- Using the work of others is outside the remit of this project.
102. The IESBA has proposed clarification that the work of experts does not constitute the work of others in the proposed consequential amendments to Section 220 (see proposed paragraph 220.7 A1).

#### **D. Using the Output of Technology**

103. The IESBA also observed the increasing use of certain generative artificial intelligence (AI) tools (e.g., ChatGPT) to generate responses to prompts or questions. The responses can take the form of coherent and seemingly authoritative statements or answers.
104. The IESBA's view is that such uses of the output of the technology do not amount to using the work of an expert. AI is not an expert as it does not possess the expertise to exercise judgment, interpret the inputs and outputs, and be accountable for them.
105. This view is supported by the development of various government regulations around the development and use of AI systems, e.g., the EU's [regulatory framework](#) for developing and using AI systems. The Technology Working Group's Phase 2 Report also highlights the impacts and risks of using AI's output, including bias, misinformation, disinformation, etc.
106. In this regard, the recently approved [technology revisions to the Code](#) guide a PA through the decision-making process when determining whether to use the output of technology (including AI). Such revisions build on concepts in the extant Code that are also relevant, for example, being aware of bias and having an inquiring mind.

### **VII. Additional Considerations for Part 2 – PAIBs**

107. The IESBA noted that most of the provisions detailed in the proposed new Section 390 are equally applicable to PAIBs who intend to use external experts to support their work. As such, the proposed new Section 290 is equivalent to the proposed new Section 390 except for the following areas in relation to evaluating an external expert's CCO:
- The requirements and application material for "audit or other assurance engagements" in proposed Section 390 are not included in the proposed Part 2 equivalent section as they are not applicable.
  - The application material added in the proposed Part 2 equivalent section to explain what "other interests" might be in the context of factors that are relevant in evaluating the objectivity of the external expert used by a PAIB. Such other interests are distinct to PAs in business as drawn from the extant Code Section 240.

### **VIII. Additional Considerations for Part 5 – Sustainability Assurance**

#### **A. Another Practitioner**

108. The IESBA considered whether the use of "another practitioner" in a sustainability assurance engagement who is not under the direction, supervision and review of the SAP is similar to the use of an external expert who is also not under the direction, supervision and review of the SAP.
109. The IESBA observed that the function and expertise of another practitioner and those of an external expert are fundamentally different. The former performs assurance work, whilst the latter does not. See further explanatory details in the [Sustainability ED](#).

**B. Use of External Experts Across the Sustainability Value Chain**

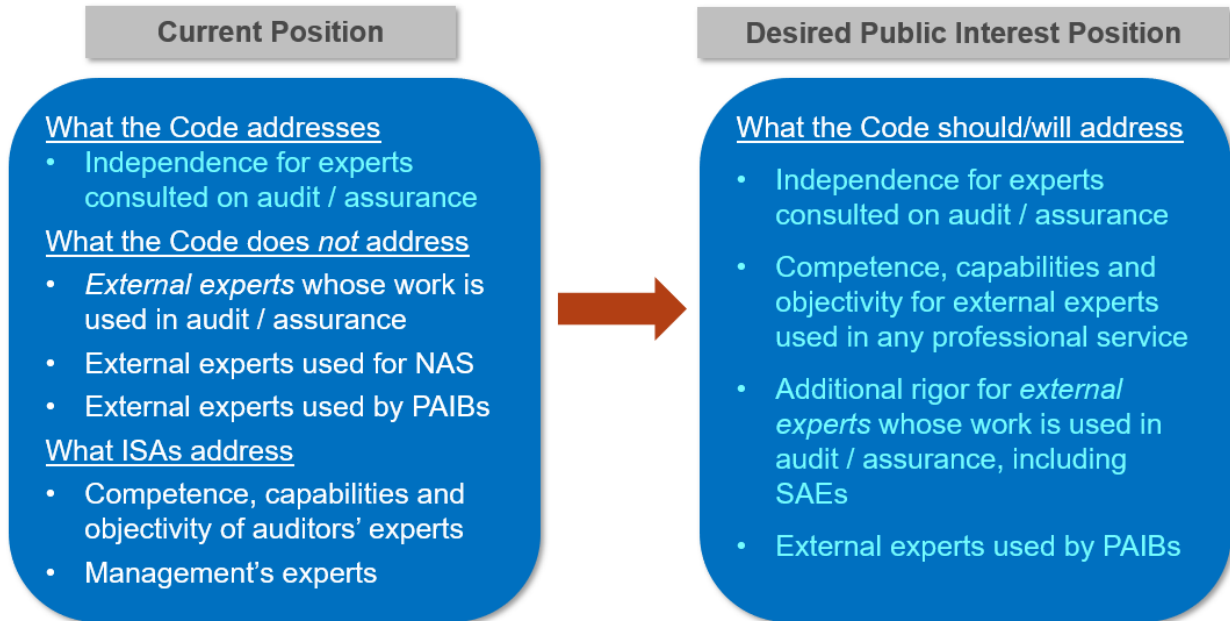
110. The IESBA's view is that the general principle regarding [evaluating objectivity](#) remains applicable. The evaluation refers to the entity at which the practitioner performs work.
111. In some circumstances, such entity might be different from the entity that engaged the practitioner (e.g., such entity could be a supplier in the value chain that is outside the organizational boundary of the entity that engaged the practitioner, or such entity could be a related entity of the entity that engaged the practitioner in a group sustainability assurance engagement).
112. Specifically for the Part 5 equivalent to proposed Section 390, the IESBA considered whether to expand the scope of the evaluation of objectivity to the client's value chain. On due reflection, the IESBA believes this would be neither practicable nor manageable. For example, a particular supplier within a client's value chain might also be the supplier to many other entities. Such supplier might then become inundated with numerous requests to provide information about interests, relationships and circumstances involving an external expert with its customers. Whether such a supplier would even respond would be outside the control of the practitioner, client or entity at which the expert is performing work.
113. Accordingly, the IESBA has proposed that the scope of the evaluation of objectivity remains as set out in proposed Section 5390 for sustainability assurance engagements.

**C. External Experts who are also Sustainability Assurance Practitioners**

114. Various stakeholders have questioned whether the proposals would address circumstances where an assurance provider also acts as an expert on a specific subject matter for the same entity, which might arise when there is a limited number of experts in the field or area regarding such subject matter. This means that the assurance provider is also providing a NAS in its capacity as an expert to the same entity.
115. In such a situation, the self-review threat provisions of the equivalent NAS section in the independence standards within the proposed Part 5 would cover the circumstance where an expert also acts as an assurance provider on a specific subject matter.

## IX. Analysis of the Overall Impact of the Proposed Changes

116. The IESBA believes that these proposals will serve the public interest as they will set a global benchmark for (i) how to evaluate the competence, capabilities and objectivity of external experts from an ethical perspective, and (ii) how to identify, evaluate and address the threats that might be created when using the work of an external expert. The diagram below illustrates the desired public interest position that the proposals are intended to achieve:



117. The IESBA further considers that the proposals meet the key characteristics of the Public Interest Framework as follows:

- Comprehensiveness, due to the development of a comprehensive ethical framework based on the Code's conceptual framework that covers the use of external experts in audit and other assurance (including sustainability assurance) engagements, NAS, as well as for PAIBs.
- Scalability, due in particular to the proportionality in the evaluation of objectivity, taking into account the nature of the engagement, and applying greater rigor to evaluate objectivity against independence attributes for external experts in an audit and other assurance context.
- Clarity, due to the clear distinction among internal, external and management's experts.
- Implementability, due to the focus on the evaluation of objectivity by a PA/non-PA practitioner versus imposition of independence requirements on external experts in an audit or other assurance context that would be burdensome, inoperable and unenforceable on the external experts.
- Enforceability, due to the clear requirements for PAs/non-PA practitioners.

118. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals are of a level that would entail significant changes to the policies and procedures for PAPPs and assurance practitioners, including firms and SMPs. Such changes may result in increased costs. The nature and significance of those costs will depend on the particular circumstances. As with any changes to the Code, PAPPs, assurance practitioners, NSS and others with responsibilities for adoption and implementation can expect implementation costs associated with awareness and

training initiatives, translation where needed, and, where applicable, maintenance costs with respect to updating internal policies and methodologies.

**X. Project Timetable and Effective Date**

119. The indicative timeline for the completion of the Use of Experts project is set out below. This timeline takes into account a 90-day comment period for the ED and is aligned with the timeline for the Sustainability project.

Indicative Timing	Milestone
April 30, 2024	<ul style="list-style-type: none"> <li>Closing date for comments to the ED</li> </ul>
June 2024	<ul style="list-style-type: none"> <li>Preliminary highlights of ED responses to IESBA</li> </ul>
September–October 2024	<ul style="list-style-type: none"> <li>Full review of ED responses and first-read post-exposure with IESBA</li> <li>Outreach to stakeholders</li> </ul>
December 2024	<ul style="list-style-type: none"> <li>IESBA approval of final pronouncement</li> </ul>
2025	<ul style="list-style-type: none"> <li>Roll-out and implementation support</li> </ul>

**XI. Guide for Respondents**

120. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

**A. Request for Specific Comments**

*Glossary*

1. Do respondents support the proposals set out in the glossary concerning the proposed new and revised definitions? See Section III.

*Evaluation of CCO for all Professional Services and Activities*

2. Do respondents support the approach regarding evaluating an external expert's competence, capabilities and objectivity? Are there other considerations that should be incorporated in the evaluation of CCO specific to PAIBs, PAPPs and SAPs? See Section V.
3. Do respondents agree that if an external expert is not competent, capable or objective, the Code should prohibit the PA or SAP from using their work? See paragraphs 67 to 74.

*Evaluation of CCO for Audit or Other Assurance Engagements*

4. In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's

objectivity introduce an appropriate level of rigor to address the heightened public interest expectations concerning external experts? If not, what other considerations would help to address the heightened public interest expectations? See Section (V)(A).

*Potential Threats Arising from Using the Work of an External Expert*

5. Do respondents support the provisions that guide PAs or SAPs in applying the conceptual framework when using the work of an external expert? Are there other considerations that should be included? See Section (VI)(A).

**B. Request for General Comments**

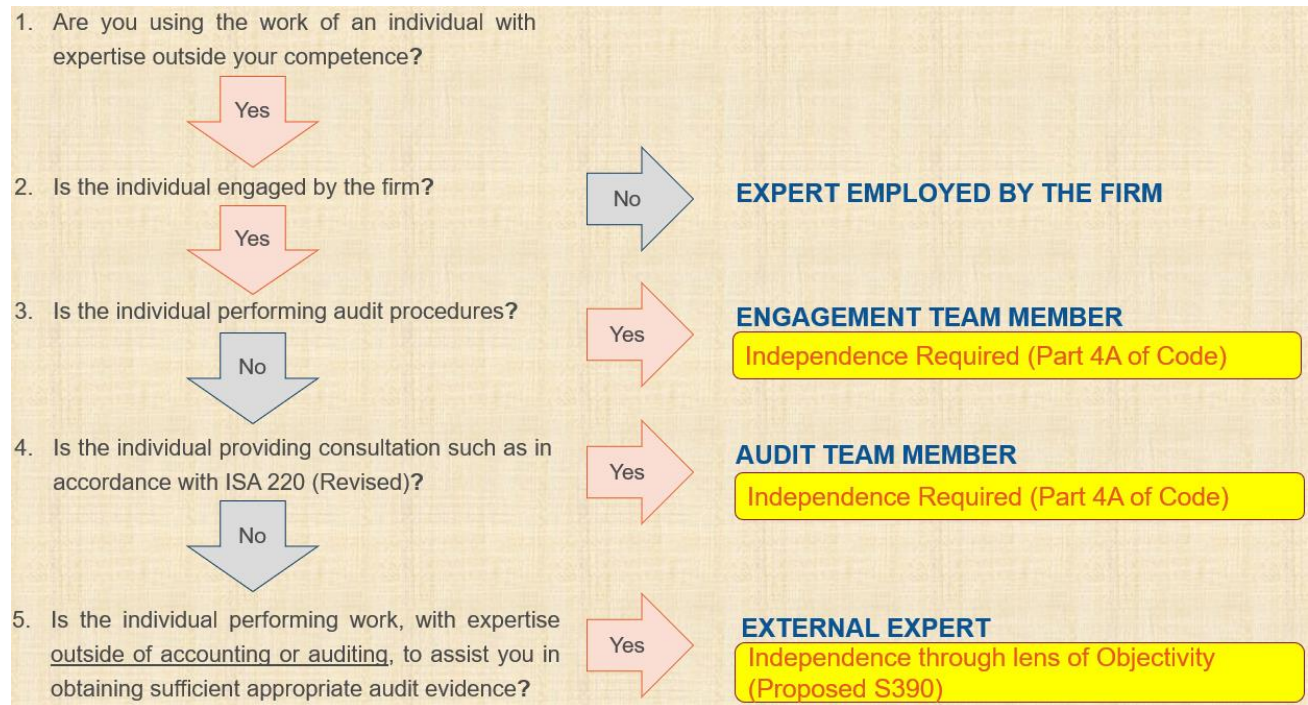
121. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *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.
- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
- *Sustainability Assurance Practitioners Other than Professional Accountants* – The IESBA invites comments on the clarity, understandability and usability of the proposals from SAPs outside of the accountancy profession who perform sustainability assurance engagements addressed in the proposed Part 5 of the Code.
- *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.
- *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.



## Appendix 1: Flowchart for Experts Used in an Audit Engagement

The following flowchart sets out the different questions PAs should ask when they are using an expert in the context of an audit engagement:



Please see following page for flowchart setting out questions for “expert employed by the firm.”

The following flowchart sets out the different questions that PAs should ask when they are using an expert employed by the firm in the context of an audit engagement:



# EXPOSURE DRAFT: USING THE WORK OF AN EXTERNAL EXPERT

## SECTION 220 (MARK UP FROM EXTANT)\*

### PREPARATION AND PRESENTATION OF INFORMATION

...

### Requirements and Application Material

#### General

...

#### Using the Work of Others

**R220.7** A professional accountant who intends to use the work of others, whether internal or external to the employing organization, or other organizations, shall exercise professional judgment to determine the appropriate steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

220.7 A1 For the purposes of this section, the work of others excludes the work of an external expert. When a professional accountant intends to use the work of an external expert, the requirements and application material set out in Section 290 apply.

220.7 A~~2~~<sup>4</sup> Factors to consider when a professional accountant intends to use the work of others include:

- The reputation and ~~expertise-competence~~ of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

...

\* Mark-Up from [2023 Version of the International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) incorporating approved pronouncements effective in December 2024, i.e., the [technology-related revisions](#) and [revisions to the definitions of listed entity and public interest entity](#), as well as the [revisions relating to the definition of engagement team and group audits](#) in the Code which are already effective.

## PROPOSED SECTION 290

### USING THE WORK OF AN EXTERNAL EXPERT

#### Introduction

- 290.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 290.2 Using the work of an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 290.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert.

#### Requirements and Application Material

##### General

- 290.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a professional accountant performs a professional activity for which the accountant has insufficient expertise.
- 290.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional activity who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 290.4 A3 An external expert might be used to undertake specific work to support a professional activity performed by a professional accountant. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
  - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
  - The calculation of greenhouse gas emissions.
  - The measurement of pollutants emitted to air, water and soil.
  - The valuation of products and materials designed along principles for a sustainable economy.
  - The estimation of oil and gas reserves.
  - The interpretation of contracts, laws and regulations, including tax laws and regulations, tax treaties and bilateral agreements.
  - Assessment and evaluation of IT systems, including those related to cybersecurity.
- 290.4 A4 This section does not apply to the use of information provided by individuals or organizations that are external information sources for general use. They include, for example, those that provide industry or other benchmarking data or studies, such as information about employment

statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

### **Agreeing the Terms of Engagement with an External Expert**

**R290.5** If the professional accountant has identified an external expert to use for a professional activity, the accountant shall agree the terms of engagement with the external expert, including the nature, scope and objectives of the work to be performed by the external expert.

290.5 A1 In agreeing the terms of engagement, matters that the professional accountant might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's general approach to the work.
- Expectations regarding confidentiality of the external expert's work and the inputs to that work.
- The expected content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- Expectations regarding the external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the employing organization, or those working for or under the direction of the employing organization, of which the external expert becomes aware when performing the work.

### **Evaluating the External Expert's Competence, Capabilities, and Objectivity**

**R290.6** The professional accountant shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose.

290.6 A1 A self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a professional accountant uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional activity.

290.6 A2 Factors that are relevant in evaluating the competence of the external expert include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body and, if so, whether the external expert is in good standing.
- Whether the external expert's work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work for the professional accountant's employing organization or other clients.

- 290.6 A3 Factors that are relevant in evaluating the capabilities of the external expert include:
- The resources available to the external expert.
  - Whether the external expert has sufficient time to perform the work.
- 290.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:
- Whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
  - Whether the external expert or their employing organization has a conflict of interest or other interests in relation to the work the external expert is performing at the entity.
  - Whether the professional accountant knows or is aware of any bias that might affect the external expert's work.
  - Whether the external expert will evaluate or rely on any previous judgments made or activities performed by the external expert or their employing organization in undertaking the work.
- 290.6 A5 Other interests that might impact the level of threat to an external expert's objectivity include significant financial interests such as those arising from compensation, fees or incentive arrangements linked to financial and non-financial information and decision making.
- 290.6 A6 Examples of previous judgments made or activities performed by an external expert or their employing organization that might create a self-review threat to the external expert's objectivity include:
- Having advised the entity on the matter for which the external expert is performing the work.
  - Having produced data or other information for the entity which is then used by the external expert in performing the work or is the subject of that work.
- 290.6 A7 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:
- Personal association or experience with previous work undertaken by the external expert.
  - Inquiry of others within or outside the professional accountant's employing organization who are familiar with the external expert's work.
  - Discussion with the external expert about their background, including their field of expertise and business activities.
  - Inquiry of the external expert's professional body or industry association.
  - Articles, papers or books written by the external expert and published by a recognized publisher or in a recognized journal or other medium.
  - Published records, such as legal proceedings involving the external expert.
  - Inquiry of management of the employing organization and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the employing organization or the entity.

- The internal controls, policies and procedures of the professional accountant's employing organization.

**R290.7** The professional accountant shall not use work of the external expert if:

- (a) The accountant is unable to obtain the information needed for the accountant's evaluation of the external expert's competence, capabilities and objectivity; or
- (b) The accountant determines that the external expert is not competent, capable or objective.

### **Potential Threats Arising from Using the Work of an External Expert**

290.8 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a professional accountant has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose.

#### *Identifying Threats*

290.9 A1 Examples of facts and circumstances that might create threats to a professional accountant's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
  - A professional accountant has insufficient expertise to understand and explain the external expert's conclusions and findings.
  - A professional accountant has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional activity.
  - A professional accountant has insufficient time or resources to evaluate the external expert's work.
- (b) Advocacy threats
  - A professional accountant promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the employing organization.
- (c) Familiarity threats
  - A professional accountant has a close personal relationship with the external expert.
- (d) Intimidation threats
  - A professional accountant feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.

#### *Evaluating Threats*

290.10 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.

- The impact of the external expert's work on the professional accountant's engagement.
- The nature of the professional activity for which the external expert's work is intended to be used.
- The professional accountant's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The professional accountant's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the employing organization to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

#### *Addressing Threats*

290.11 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

290.11 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel within the employing organization who have the necessary expertise and experience to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with management of the employing organization additional time or resources to complete the activity.

#### **Other Matters**

##### *External Experts in Emerging Fields or Areas*

290.12 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.



290.12 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 290.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the professional accountant in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

*Using the Work of Multiple External Experts*

**R290.13** When a professional accountant uses the work of more than one external expert in the performance of a professional activity, the accountant shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.

*Inherent Limitations in Evaluating an External Expert's Competence, Capabilities or Objectivity*

290.14 A1 Paragraph R113.3 sets out communication responsibilities for the professional accountant with respect to limitations inherent in the accountant's professional activities. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

*Communicating with Management and Those Charged with Governance When Using the Work of an External Expert*

290.15 A1 The professional accountant is encouraged to communicate with management, and where appropriate, those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the accountant and the external expert in the performance of the professional activity.
- Any threats to the accountant's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

*Documentation*

290.16 A1 The professional accountant is encouraged to document:

- The results of any discussions with the external expert.
- The steps taken by the accountant to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the accountant in using the external expert's work and the actions taken to address the threats.

...

## SECTION 320 (MARK UP FROM EXTANT)\* PROFESSIONAL APPOINTMENTS

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### Requirements and Application Material

...

#### Using the Work of an Expert

~~R320.10~~ When a professional accountant intends to use the work of an expert in the course of undertaking a professional activity, the accountant shall determine whether the use is appropriate for the intended purpose.

~~320.10 A1~~ Factors to consider when a professional accountant intends to use the work of an expert include:

- ~~• The reputation and expertise of, and the resources available to, the expert.~~
- ~~• Whether the expert is subject to applicable professional and ethics standards.~~

~~Such information might be gained from prior association with, or from consulting others about, the expert.~~

...

#### Other Considerations

320.11~~2~~ A1 When a professional accountant is considering using the ~~work of experts or the~~ output of technology, a consideration is whether the accountant is in a position within the firm to obtain information in relation to the factors necessary to determine whether such use is appropriate.

320.11 A2 When a professional accountant intends to use the work of an expert, the requirements and application material set out in Section 390 apply.

...

\* Mark-Up from [2023 Version of the International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) incorporating approved pronouncements effective in December 2024, i.e., the [technology-related revisions](#) and [revisions to the definitions of listed entity and public interest entity](#), as well as the [revisions relating to the definition of engagement team and group audits](#) in the Code which are already effective.

## PROPOSED SECTION 390

### USING THE WORK OF AN EXTERNAL EXPERT

#### Introduction

- 390.1 Professional accountants are required to comply with the fundamental principles and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.
- 390.2 Using the work of an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert.

#### Requirements and Application Material

##### General

- 390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a professional accountant performs a professional service for which the accountant has insufficient expertise.
- 390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a professional accountant. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
  - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
  - The calculation of greenhouse gas emissions.
  - The measurement of pollutants emitted to air, water and soil.
  - The valuation of products and materials designed along principles for a sustainable economy.
  - The estimation of oil and gas reserves.
  - The interpretation of contracts, laws and regulations, including tax laws and regulations, tax treaties and bilateral agreements.
  - Assessment and evaluation of IT systems, including those related to cybersecurity.

390.4 A4 This section does not apply to:

- (a) The use of the work of an expert employed or engaged by the client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management; and
- (b) The use of information provided by individuals or organizations that are external information sources for general use. They include, for example, those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

### **Agreeing the Terms of Engagement with an External Expert**

#### *All Professional Services*

**R390.5** If the professional accountant has identified an external expert to use for a professional service, the accountant shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

- (a) The nature, scope and objectives of the work to be performed by the external expert; and
- (b) In the context of audit or other assurance engagements, the provision of information needed from the external expert for purposes of assisting the accountant's evaluation of the external expert's competence, capabilities and objectivity.

390.5 A1 In agreeing the terms of engagement, matters that the professional accountant might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's general approach to the work.
- Expectations regarding confidentiality of the external expert's work and the inputs to that work.
- The expected content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- Expectations regarding the external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the client, or those working for or under the direction of the client, of which the external expert becomes aware when performing the work.

### **Evaluating the External Expert's Competence, Capabilities, and Objectivity**

#### *All Professional Services*

**R390.6** The professional accountant shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose.

390.6 A1 A self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a professional

accountant uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service.

- 390.6 A2 Factors that are relevant in evaluating the competence of the external expert include:
- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
  - Whether the external expert belongs to a relevant professional body and, if so, whether the external expert is in good standing.
  - Whether the external expert's work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
  - Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
  - Whether the external expert has a history of performing similar work for the professional accountant's firm or other clients.
- 390.6 A3 Factors that are relevant in evaluating the capabilities of the external expert include:
- The resources available to the external expert.
  - Whether the external expert has sufficient time to perform the work.
- 390.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:
- Whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
  - Whether the external expert or their employing organization has a conflict of interest in relation to the work the external expert is performing at the entity.
  - Whether the professional accountant knows or is aware of any bias that might affect the external expert's work.
  - Whether the external expert will evaluate or rely on any previous judgments made or activities performed by the external expert or their employing organization in undertaking the work.
- 390.6 A5 Examples of previous judgments made or activities performed by an external expert or their employing organization that might create a self-review threat to the external expert's objectivity include:
- Having advised the entity on the matter for which the external expert is performing the work.
  - Having produced data or other information for the entity which is then used by the external expert in performing the work or is the subject of that work.
- 390.6 A6 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:
- Personal association or experience with previous work undertaken by the external expert.

- Inquiry of others within or outside the professional accountant's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Inquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognized publisher or in a recognized journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Inquiry of the client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the professional accountant's firm.

*Audit or Other Assurance Engagements*

390.7 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in an audit or other assurance engagement. Therefore, paragraphs R390.8 to R390.11 set out further actions in evaluating the objectivity of an external expert in an audit or other assurance engagement pursuant to paragraph R390.6.

**R390.8** The professional accountant shall request the external expert to provide, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the audit or assurance report and the engagement period, information about:

- (a) Any direct financial interest or material indirect financial interest held by the external expert, their immediate family, or the external expert's employing organization in the entity;
- (b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing organization, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (c) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;
- (d) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (e) Any close business relationship between the external expert, their immediate family, or the external expert's employing organization and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is

insignificant to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity or its management;

- (f) Any previous or current engagements between the external expert or their employing organization and the entity;
  - (g) How long the external expert and their employing organization have been associated with the entity;
  - (h) Any position as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information, or the records underlying such information:
    - (i) Held by the external expert or their immediate family;
    - (ii) Held or previously held by the external expert; or
    - (iii) Held or previously held by management of the external expert's employing organization;
  - (i) Any previous public statements by the external expert or their employing organization which advocated for the entity;
  - (j) Any fee or contingent fee or dependency on fees or other types of remuneration due to or received by the external expert or their employing organization from the entity;
  - (k) Any benefits received by the external expert, their immediate family or the external expert's employing organization from the entity;
  - (l) Any conflict of interest the external expert or their employing organization might have in relation to the work the external expert is performing at the entity; and
  - (m) The nature and extent of any interests and relationships between the controlling owners of the external expert's employing organization and the entity.
- R390.9** Where the external expert uses a team to carry out the work, the professional accountant shall request the external expert to have all members of the external expert's team provide the information set out in paragraph R390.8, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the audit or assurance report and the engagement period.
- R390.10** The professional accountant shall request the external expert to communicate any changes in facts or circumstances regarding the matters set out in paragraph R390.8 that might arise during the period covered by the audit or assurance report and the engagement period.
- R390.11** Where the client is not the entity at which the external expert is performing the work, the professional accountant shall also request the external expert to disclose, in relation to the period covered by the audit or assurance report and the engagement period, information about interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organization and the client.
- 390.11 A1 Examples of interests, relationships or circumstances between the external expert and the client that might be included in the evaluation of the external expert's objectivity include:
- Any direct financial interest or material indirect financial interest in the client held by the external expert, their immediate family, or the external expert's employing organization.

- Any interests or relationships of the external expert, their immediate family or the external expert's employing organization with the client and those entities over which it has direct or indirect control.
- Any conflicts of interest the external expert, their immediate family or the external expert's employing organization might have with the client.

390.11 A2 Information about interests, relationships or circumstances between an external expert or their employing organization and the client might be obtained from inquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

*All Professional Services*

**R390.12** The professional accountant shall not use the work of the external expert if:

- (a) The accountant is unable to obtain the information needed for the accountant's evaluation of the external expert's competence, capabilities and objectivity; or
- (b) The accountant determines that the external expert is not competent, capable or objective.

**Potential Threats Arising from Using the Work of an External Expert**

*All Professional Services*

390.13 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a professional accountant has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the accountant's purpose.

*Identifying Threats*

390.14 A1 Examples of facts and circumstances that might create threats to a professional accountant's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
  - A professional accountant has insufficient expertise to understand and explain the external expert's conclusions and findings.
  - A professional accountant has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional service.
  - A professional accountant has insufficient time or resources to evaluate the external expert's work.
- (b) Advocacy threats
  - A professional accountant promotes the use of an external expert who has known bias towards conclusions potentially advantaging or disadvantaging the client.
- (c) Familiarity threats
  - A professional accountant has a close personal relationship with the external



expert.

(d) Intimidation threats

- A professional accountant feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.

*Evaluating Threats*

390.15 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the professional accountant's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The professional accountant's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The professional accountant's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the professional accountant's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

*Addressing Threats*

390.16 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

390.16 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel who have the necessary expertise and experience to evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.
- Using another external expert to reperform the external expert's work.
- Agreeing with the client additional time or resources to complete the engagement.

## Other Matters

### *External Experts in Emerging Fields or Areas*

- 390.17 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.
- 390.17 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the professional accountant in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

### *Using the Work of Multiple External Experts*

- R390.18** When a professional accountant uses the work of more than one external expert in the performance of a professional service, the accountant shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.

### *Inherent Limitations in Evaluating an External Expert's Competence, Capabilities or Objectivity*

- 390.19 A1 Paragraph R113.3 sets out communication responsibilities for the professional accountant with respect to limitations inherent in the accountant's professional services. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

### *Communicating with Management and Those Charged with Governance When Using the Work of an External Expert*

- 390.20 A1 The professional accountant is encouraged to communicate with management, and where appropriate, those charged with governance:
- The purpose of using an external expert and the scope of the external expert's work.
  - The respective roles and responsibilities of the accountant and the external expert in the performance of the professional service.
  - Any threats to the accountant's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

### *Documentation*

- 390.21 A1 The professional accountant is encouraged to document:
- The results of any discussions with the external expert.

EXPOSURE DRAFT

- The steps taken by the accountant to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the accountant in using the external expert's work and the actions taken to address the threats.

## **PROPOSED SECTION 5390**

### **USING THE WORK OF AN EXTERNAL EXPERT**

#### **Introduction**

- 5390.1 Sustainability assurance practitioners are required to comply with the fundamental principles and apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats.
- 5390.2 Using the work of an external expert might create threats to compliance with the fundamental principles, particularly the principles of integrity, objectivity and professional competence and due care.
- 5390.3 This section sets out requirements and application material relevant to applying the conceptual framework in relation to using the work of an external expert.

#### **Requirements and Application Material**

##### **General**

- 5390.4 A1 A self-interest threat to compliance with the principles of integrity and professional competence and due care is created if a sustainability assurance practitioner performs a professional service for which the practitioner has insufficient expertise.
- 5390.4 A2 An action that might be a safeguard to address such a threat is to use the work of an external expert for the professional service who has the competence, capabilities and objectivity to deliver the work needed for such service.
- 5390.4 A3 An external expert might be used to undertake specific work to support a professional service provided by a sustainability assurance practitioner. Such work can be in a field that is well-established or emerging. Examples of such work include:
- The valuation of assets such as complex financial instruments, land and buildings, plant and machinery, jewelry, works of art, antiques, intangible assets, assets acquired in business combinations, and assets that may have been impaired.
  - The valuation of liabilities such as those assumed in business combinations, those from actual or threatened litigation, environmental liabilities, site clean-up liabilities, and those associated with insurance contracts or employee benefit plans.
  - The calculation of greenhouse gas emissions.
  - The measurement of pollutants emitted to air, water and soil.
  - The valuation of products and materials designed along principles for a sustainable economy.
  - The estimation of oil and gas reserves.
  - The interpretation of contracts, laws and regulations, including tax laws and regulations, tax treaties and bilateral agreements.
  - Assessment and evaluation of IT systems, including those related to cybersecurity.
  - The accounting for specific matters such as financial instruments or carbon credits.

5390.4 A4 This section does not apply to:

- (a) The use of the work of an expert employed or engaged by the sustainability assurance client to assist the client in preparing the financial or non-financial information. Such work is deemed to be information provided by management; and
- (b) The use of information provided by individuals or organizations that are external information sources for general use. They include, for example, those that provide industry or other benchmarking data or studies, such as information about employment statistics including hours worked and compensation per week by geographical area, real estate prices, carbon emissions by vehicle type, mortality tables, or other datasets for general use.

### **Agreeing the Terms of Engagement with an External Expert**

#### *All Professional Services*

**R5390.5** If the sustainability assurance practitioner has identified an external expert to use for a professional service, the practitioner shall, to the extent not otherwise addressed by law, regulation or other professional standards, agree the terms of engagement with the external expert, including:

- (a) The nature, scope and objectives of the work to be performed by the external expert; and
- (b) In the context of sustainability or other assurance engagements, the provision of information needed from the external expert for purposes of assisting the practitioner's evaluation of the external expert's competence, capabilities and objectivity.

5390.5 A1 In agreeing the terms of engagement, matters that the sustainability assurance practitioner might discuss with the external expert include:

- The intended use and timing of the external expert's work.
- The external expert's general approach to the work.
- Expectations regarding confidentiality of the external expert's work and the inputs to that work.
- The expected content and format of the external expert's completed work, including any assumptions made and limitations to that work.
- Expectations regarding the external expert's communication of any non-compliance or suspected non-compliance with laws and regulations committed by the sustainability assurance client, or those working for or under the direction of the client, of which the external expert becomes aware when performing the work.

### **Evaluating the External Expert's Competence, Capabilities, and Objectivity**

#### *All Professional Services*

**R5390.6** The sustainability assurance practitioner shall evaluate whether the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose.

5390.6 A1 A self-interest, self-review or advocacy threat to compliance with the principles of integrity, objectivity and professional competence and due care might be created if a sustainability

assurance practitioner uses an external expert who does not have the competence, capabilities or objectivity to deliver the work needed for the particular professional service.

5390.6 A2 Factors that are relevant in evaluating the competence of the external expert include:

- Whether the external expert's credentials, education, training, experience and reputation are relevant to, or consistent with, the nature of the work to be performed.
- Whether the external expert belongs to a relevant professional body and, if so, whether the external expert is in good standing.
- Whether the external expert's work is subject to professional standards issued by a recognized body, or follows generally accepted principles or practices, in the external expert's field or area of expertise.
- Whether the external expert can explain their work, including the inputs, assumptions and methodologies used.
- Whether the external expert has a history of performing similar work for the sustainability assurance practitioner's firm or other clients.

5390.6 A3 Factors that are relevant in evaluating the capabilities of the external expert include:

- The resources available to the external expert.
- Whether the external expert has sufficient time to perform the work.

5390.6 A4 Factors that are relevant in evaluating the objectivity of the external expert include:

- Whether the external expert is subject to ethics standards issued by a body responsible for issuing such standards in the external expert's field of expertise.
- Whether the external expert or their employing organization has a conflict of interest in relation to the work the external expert is performing at the entity.
- Whether the sustainability assurance practitioner knows or is aware of any bias that might affect the external expert's work.
- Whether the external expert will evaluate or rely on any previous judgments made or activities performed by the external expert or their employing organization in undertaking the work.

5390.6 A5 Examples of previous judgments made or activities performed by an external expert or their employing organization that might create a self-review threat to the external expert's objectivity include:

- Having advised the entity on the matter for which the external expert is performing the work.
- Having produced data or other information for the entity which is then used by the external expert in performing the work or is the subject of that work.

5390.6 A6 Information about the external expert's competence, capabilities and objectivity might be obtained from various sources, including:

- Personal association or experience with previous work undertaken by the external expert.

- Inquiry of others within or outside the sustainability assurance practitioner's firm who are familiar with the external expert's work.
- Discussion with the external expert about their background, including their field of expertise and business activities.
- Inquiry of the external expert's professional body or industry association.
- Articles, papers or books written by the external expert and published by a recognized publisher or in a recognized journal or other medium.
- Published records, such as legal proceedings involving the external expert.
- Inquiry of the sustainability assurance client and, if different, the entity at which the external expert is performing the work regarding any interests and relationships between the external expert and the client or the entity.
- The system of quality management of the sustainability assurance practitioner's firm.

#### *Sustainability or Other Assurance Engagements*

5390.7 A1 Stakeholders have heightened expectations regarding the objectivity of an external expert whose work is used in a sustainability or other assurance engagement. Therefore, paragraphs R5390.8 to R5390.11 set out further actions in evaluating the objectivity of an external expert in a sustainability or other assurance engagement pursuant to paragraph R5390.6.

**R5390.8** The sustainability assurance practitioner shall request the external expert to provide, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period, information about:

- (a) Any direct financial interest or material indirect financial interest held by the external expert, their immediate family, or the external expert's employing organization in the entity;
- (b) Any loan, or guarantee of a loan, made to the entity by the external expert, their immediate family, or the external expert's employing organization, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (c) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is a bank or similar institution, other than where the loan or guarantee is made under normal lending procedures, terms and conditions;
- (d) Any loan, or a guarantee of a loan, accepted by the external expert, their immediate family, or the external expert's employing organization from the entity if it is not a bank or similar institution, other than where the loan or guarantee is immaterial to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity;
- (e) Any close business relationship between the external expert, their immediate family, or the external expert's employing organization and the entity or its management, other than where the financial interest, if any, is immaterial and the business relationship is

insignificant to the external expert, their immediate family or the external expert's employing organization, as applicable, and the entity or its management;

- (f) Any previous or current engagements between the external expert or their employing organization and the entity;
  - (g) How long the external expert and their employing organization have been associated with the entity;
  - (h) Any position as a director or officer of the entity, or an employee in a position to exert significant influence over the preparation of the entity's financial or non-financial information, or the records underlying such information:
    - (i) Held by the external expert or their immediate family;
    - (ii) Held or previously held by the external expert; or
    - (iii) Held or previously held by management of the external expert's employing organization;
  - (i) Any previous public statements by the external expert or their employing organization which advocated for the entity;
  - (j) Any fee or contingent fee or dependency on fees or other types of remuneration due to or received by the external expert or their employing organization from the entity;
  - (k) Any benefits received by the external expert, their immediate family or the external expert's employing organization from the entity;
  - (l) Any conflict of interest the external expert or their employing organization might have in relation to the work the external expert is performing at the entity; and
  - (m) The nature and extent of any interests and relationships between the controlling owners of the external expert's employing organization and the entity.
- R5390.9** Where the external expert uses a team to carry out the work, the sustainability assurance practitioner shall request the external expert to have all members of the external expert's team provide the information set out in paragraph R5390.8, in relation to the entity at which the external expert is performing the work and with respect to the period covered by the assurance report and the engagement period.
- R5390.10** The sustainability assurance practitioner shall request the external expert to communicate any changes in facts or circumstances regarding the matters set out in paragraph R5390.8 that might arise during the period covered by the assurance report and the engagement period.
- R5390.11** Where the sustainability assurance client is not the entity at which the external expert is performing the work, the sustainability assurance practitioner shall also request the external expert to disclose, in relation to the period covered by the assurance report and the engagement period, information about interests, relationships or circumstances of which they are aware between the external expert, their immediate family or the external expert's employing organization and the client.
- 5390.11 A1 Examples of interests, relationships or circumstances between the external expert and the sustainability assurance client that might be included in the evaluation of the external expert's objectivity include:



- Any direct financial interest or material indirect financial interest in the sustainability assurance client held by the external expert, their immediate family, or the external expert's employing organization.
- Any interests or relationships of the external expert, their immediate family or the external expert's employing organization with the sustainability assurance client and those entities over which it has direct or indirect control.
- Any conflicts of interest the external expert, their immediate family or the external expert's employing organization might have with the sustainability assurance client.

5390.11 A2 Information about interests, relationships or circumstances between an external expert or their employing organization and the sustainability assurance client might be obtained from inquiry of the client, if the circumstances of the engagement permit disclosure of the use of the external expert to the client.

*All Professional Services*

**R5390.12** The sustainability assurance practitioner shall not use the work of the external expert if:

- (a) The practitioner is unable to obtain the information needed for the practitioner's evaluation of the external expert's competence, capabilities and objectivity; or
- (b) The practitioner determines that the external expert is not competent, capable or objective.

**Potential Threats Arising from Using the Work of an External Expert**

*All Professional Services*

5390.13 A1 Threats to compliance with the fundamental principles might still be created from using the work of an external expert even if a sustainability assurance practitioner has satisfactorily concluded that the external expert has the necessary competence, capabilities and objectivity for the practitioner's purpose.

*Identifying Threats*

5390.14 A1 Examples of facts and circumstances that might create threats to a sustainability assurance practitioner's compliance with the fundamental principles when using an external expert's work include:

- (a) Self-interest threats
  - A sustainability assurance practitioner has insufficient expertise to understand and explain the external expert's conclusions and findings.
  - A sustainability assurance practitioner has undue influence from, or undue reliance on, the external expert or multiple external experts when performing a professional service.
  - A sustainability assurance practitioner has insufficient time or resources to evaluate the external expert's work.
- (b) Advocacy threats
  - A sustainability assurance practitioner promotes the use of an external expert who

has known bias towards conclusions potentially advantaging or disadvantaging the sustainability assurance client.

(c) Familiarity threats

- A sustainability assurance practitioner has a close personal relationship with the external expert.

(d) Intimidation threats

- A sustainability assurance practitioner feels pressure to defer to the external expert's opinion due to the external expert's perceived authority.

*Evaluating Threats*

5390.15 A1 Factors that are relevant in evaluating the level of such threats include:

- The scope and purpose of the external expert's work.
- The impact of the external expert's work on the sustainability assurance practitioner's engagement.
- The nature of the professional service for which the external expert's work is intended to be used.
- The sustainability assurance practitioner's oversight relating to the use of the external expert and the external expert's work.
- The appropriateness of, and transparency over, the data, assumptions and other inputs and methods used by the external expert.
- The sustainability assurance practitioner's ability to understand and explain the external expert's work and its appropriateness for the intended purpose.
- Whether the external expert's work is subject to technical performance standards or other professional or industry generally accepted practices, or law or regulation.
- Whether the external expert's work, if it were to be performed by two or more parties, is not likely to be materially different.
- The consistency of the external expert's work, including the external expert's conclusions or findings, with other information.
- The availability of other evidence, including peer-reviewed academic research, to support the external expert's approach.
- Whether there is pressure being exerted by the sustainability assurance practitioner's firm to accept the external expert's conclusions or findings due to the time or cost spent by the external expert in performing the work.

*Addressing Threats*

5390.16 A1 An example of an action that might eliminate a familiarity threat is identifying a different external expert to use.

5390.16 A2 Examples of actions that might be safeguards to address threats include:

- Consulting with qualified personnel who have the necessary expertise and experience to

evaluate the external expert's work, obtaining additional input, or challenging the appropriateness of the external expert's work for the intended purpose.

- Using another external expert to reperform the external expert's work.
- Agreeing with the sustainability assurance client additional time or resources to complete the engagement.

## **Other Matters**

### *External Experts in Emerging Fields or Areas*

5390.17 A1 Expertise in emerging fields or areas might evolve depending on how laws, regulations and generally accepted practices develop. Emerging fields might also involve multiple areas of expertise. There might therefore be limited availability of external experts in emerging fields or areas.

5390.17 A2 Information relating to some of the factors relevant to evaluating the competence of an external expert in paragraph 5390.6 A2 might not be available in an emerging field or area. For example, there might not be public recognition of the external expert, professional standards might not have been developed, or professional bodies might not have been established in the emerging field. In such circumstances, a factor that might assist the sustainability assurance practitioner in evaluating an external expert's competence is the external expert's experience in a similar field to the emerging field, or in an established field, that provides a reasonable basis for the external expert's work in the emerging field.

### *Using the Work of Multiple External Experts*

**R5390.18** When a sustainability assurance practitioner uses the work of more than one external expert in the performance of a professional service, the practitioner shall consider whether, in addition to the threats that might be created by using each external expert individually, the combined effect of using the work of the external experts might create additional threats or impact the level of threats.

### *Inherent Limitations in Evaluating an External Expert's Competence, Capabilities or Objectivity*

5390.19 A1 Paragraph R5113.3 sets out communication responsibilities for the sustainability assurance practitioner with respect to limitations inherent in the practitioner's professional services. When using the work of an external expert, such communication might be especially relevant when there is a lack of information to evaluate the external expert's competence, capabilities or objectivity, and there is no available alternative to that external expert.

### *Communicating with Management and Those Charged with Governance When Using the Work of an External Expert*

5390.20 A1 The sustainability assurance practitioner is encouraged to communicate with management, and where appropriate, those charged with governance:

- The purpose of using an external expert and the scope of the external expert's work.
- The respective roles and responsibilities of the sustainability assurance practitioner and the external expert in the performance of the professional service.

- Any threats to the practitioner's compliance with the fundamental principles created by using the external expert's work and how they have been addressed.

*Documentation*

5390.21 A1 The sustainability assurance practitioner is encouraged to document:

- The results of any discussions with the external expert.
- The steps taken by the practitioner to evaluate the external expert's competence, capabilities and objectivity, and the resulting conclusions.
- Any significant threats identified by the practitioner in using the external expert's work and the actions taken to address the threats.

**PROPOSED NEW GLOSSARY DEFINITIONS**

Expert	An individual possessing expertise that is outside the professional accountant's or sustainability assurance practitioner's competence. Where appropriate, the term also refers to the individual's organization.
Expertise	Knowledge and skills in a particular field.

...

**GLOSSARY (MARK UP FROM EXTANT)\***

External Expert	<p><u>An expert engaged by a professional accountant's employing organization or firm, or by a sustainability assurance practitioner.</u></p> <p><u>In the context of audit engagements, An expert individual</u> (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) <del>or organization</del> possessing <del>expertise skills, knowledge and experience</del> in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in obtaining sufficient appropriate <u>audit</u> evidence.</p> <p><u>In the context of assurance engagements, including sustainability assurance engagements, An expert individual</u> (who is not <u>an engagement leader</u>, a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) <del>or organization</del> possessing <del>expertise skills, knowledge and experience</del> in a field other than <del>assurance accounting or auditing</del>, whose work in that field is used to assist the professional accountant <u>or sustainability assurance practitioner</u> in obtaining sufficient appropriate evidence.</p> <p><u>External experts are not members of the engagement team, audit team, review team, assurance team, or sustainability assurance team.</u></p> <p><u>Sections 290, 390 and 5390 set out the requirements and application material addressing the use of the work of an external expert.</u></p>
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\* Mark-Up from [2023 Version of the International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) incorporating approved pronouncements effective in December 2024, i.e., the [technology-related revisions](#) and [revisions to the definitions of listed entity and public interest entity](#), as well as the [revisions relating to the definition of engagement team and group audits](#) in the Code which are already effective.

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2023/24 Prioritisation Plan (updated Feb)

Domestic Project	2023/2024 planned action	Resource	Priority	Key deliverable	Due date
Assurance engagements over greenhouse gas emission disclosures	Issue standard	Available	High	<a href="#">Standard</a>	Issued Aug 23
	Issue implementation guidance			<a href="#">Guidance</a>	H2 2023
XRB strategy for sustainability assurance	Monitor decision on scope of assurance. Engage with stakeholders on what assurance might look like for NZ. Develop project plan accordingly.	To manage	High	Defer – agreed Dec	TBD
Monitor assurance of climate statement/GHG/impact of climate on financial statements and KAMs	First reporting Dec 23 – see who is assuring what and what can we learn	To manage	TBD	Possible report	June 2024
Audit of Service Performance Information	Issue revised standard	Available	High	<a href="#">Standard</a>	Issued July 23
	Implementation guidance to support first time adoption	Available	Medium	<a href="#">guidance</a>	Oct 2024
Review of Service Performance Information	Develop review engagement ED – project plan approved in August. Key issues discussed in November. <a href="#">First read Feb.</a>	Available	Medium	Issue ED	April 2024
Technology	<a href="#">Explore modernising ISA (NZ) 505 for external confirmations</a>	Constrain	TBD	TBD	TBD
Value of audit	Monitor inspection findings. <a href="#">No action identified as needed.</a>	Available	High	TBD	FMA report issued.
	Issued research on the perceptions of the value of audit. Report issued September 2023.	Commission	High	Report	Issued September 2023
Quality management implementation	Q&A prepared and to be circulated for offline feedback in Feb 2024.	Available	Medium	TBD	Feb 2024
Commission research	<a href="#">Consider researching user perceptions</a>	TBD	TBD	TBD	TBD
Update standard setting policies and convergence and harmonisation policy	Revise EG AU2 Overview of Auditing and Assurance Standard Setting Process Update harmonisation/convergence policy	Available	High	Revised policies	<a href="#">Defer until more is known on sustainability plan</a>
Māori engagement	Learnings based on XRB board decision on treaty obligations	To manage	Medium	TBD	TBD
Digitisation of assurance standards	XRB initiative progressing – testing of digitised assurance standards has commenced	To manage	High	Digitised standards	June 2024



## IAASB

IAASB	2023/24 action	Resource	Priority	Key deliverable	Due date
Sustainability assurance	ED issued. XRB took a low-profile engagement on the specifics of ED 5000, while exploring the possible options for sustainability assurance in New Zealand. To finalise submission in November	Available	High	XRB <a href="#">Submission</a>	Dec 2023
Going Concern	Submission finalised. (Approval of a final standard is expected December 2024)	Available	Medium	XRB <a href="#">Submission</a>	Issued Aug 2023
Audit Evidence	Final IAASB standard may be delayed	Available	Medium	Adopt in New Zealand	TBD
Fraud	IAASB ED approved in December with exposure period H1 2024. Discuss issues in Feb	Available	Medium	Submission	May 2024
Audits of Less Complex Entities	IAASB approved ISA for LCE standard in September 2023. Survey issued to obtain views on if and for which entities to adopt in New Zealand. Discuss scope at Feb meeting	Available	Medium	Develop consultation doc on adoption of LCE standard for New Zealand	<a href="#">Defer</a> to June 2024
Implications of PIE on ISAs	IAASB approved track 1 – final standard issued by IAASB. To gazette in New Zealand following provisional approval by NZAuASB	Available	Low	<a href="#">Standard</a> issued	Nov 2023
	Track 2 ED approved Dec 2023. Issue NZ wrap around document, <a href="#">to be discussed in Feb</a>	Available	Low	Submission	May 2024
Technology	Monitor	None	None	None	None
Participate in NSS meetings/regional groups/advisory groups/task forces/host international meetings	IAASB membership maintained Attend IAASB 5000 roundtable event		High	Attend sustainability roundtable	Oct 2023
	Host sustainability assurance summit	Manage	?	Event	<a href="#">Not done</a>
	Host IAASB Chair	Available	High	Stakeholder meetings	Feb 2024
	Participate in NSS in New York in May	Available	High		May 2024

IESBA	2023/2024 action	Resource	Priority	Key deliverable	Due date
Sustainability reporting and assurance	IESBA ED ethics and independence for sustainability assurance approved in Dec 2023. <a href="#">Discuss issues in Feb 2024.</a>	Available	High	Submission	April 2024
Experts Project	IESBA ED approved in Dec 2023. <a href="#">Discuss issues in Feb 2024</a>	Available	High	Submission	April 2024
Technology non-authoritative guidance	Monitor and raise awareness	None	Low	None	None
Tax planning and related services	IESBA approved the final standard in Dec 2023 No action as outside mandate	None	None	None	None
Implementation of NAS and Fees	Monitoring and raise awareness	TBD	Low	None	TBD
Implementation of PIE definition	Monitoring and raise awareness	TBD	Low	None	TBD
Long association post implementation review	Monitoring and raise awareness	TBD	Medium	TBD	TBD
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host Mark Babington, IESBA sustainability Task Force chair		High	Events	Nov 2023
	IESBA global roundtables on sustainability exposure drafts	TBD	TBD	TBD	April 2024
	Host sustainability assurance summit	To manage	?	Events	Not done

2024/25 Prioritisation Plan

Domestic Project	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Review standard for service performance information	Analyse submissions and issue standard	Available	Low	Issue standard	Oct/Nov 2024
ISA (NZ) for LCE	Issue standard including chapter on service performance information	Available	High	Issue standard	Feb 2025
Monitor adoption of revised service performance	Monitor developments, hold workshops, work with accounting team and issue guidance as needed	Available	High	TBD	
Value of audit	Explore user needs for assurance and value of adding more into assurance reports	TBD	TBD	TBD	TBD
	Monitor inspection findings		Medium		
Monitor adoption of NZ SAE 1 on GHG	Monitor developments and issue guidance as needed	Available	High		
Limited versus reasonable assurance	Assist the market understand the levels of assurance	To manage	High	Animation/video	April 2025
XRB strategy for climate assurance – adoption of ISSA 5000/ISO or something else	Monitor developments internationally, in Australia and the New Zealand market and any government policy	Available	High	Updated policy as appropriate	June 2025
Update standard setting policy – based on developments in assurance over climate related disclosures	Revise EG Au2 and update harmonisation/convergence policy	Available	Medium	Updated policy as appropriate	June 2025
Māori engagement	Engage proactively to seek Māori views on relevant assurance issues to meet due process	To manage	TBD	TBD	
Digitisation	Ongoing maintenance of digital platform	To manage	TBD	TBD	
Explore assurance related issues related to Ngā pou o te kawa ora	Monitor developing XRB reporting framework and when appropriate, consider assurance related matters	To manage	TBD	TBD	TBD
Technology	To monitor and respond if appropriate	To manage	TBD	TBD	TBD

## IAASB

IAASB	2024/25 planned action	Resource	Priority /effort	Key deliverable	Due
Going concern revised standard	IAASB expect to approve in Dec 2024, and issue in March. Issue final updated standard in New Zealand by June 2025	Available	Medium	Standard	June 2025
PIE track 2	IAASB expect to approve in Dec 2024, and issue in March. Issue NZ final standard by June 2025	Available	High	Standard	June 2025
Vision and roadmap for technology	Monitor developments and determine implications	Available	Medium		Dec 24
Reference framework model in relation to audit evidence	Monitor developments and finalisation of ISA 500 when determined by IAASB	Available	Low	Standard	TBD
Performance aspects in relation to responding to assessed risk and analytical procedures	Monitor developments	Available	Low	Standards	TBD
Narrow scope amendments from IESBA's use of experts	Consult on proposals (comment period to close July 2025)	Available	Low	Standard	
Explore issues on materiality in practice to inform international project to revise materiality standard	IAASB project to commence Jan 2025	Available	Medium		
Fraud standard (240)	Monitor developments. IAASB expect to approve in March 2025 and issue in June. Adopt in New Zealand once issued (expected Sep 2025)	Available	High	Standard	
ISSA 5000 Sustainability	IAASB expected to approve standard in Sept 2024. Issue ISSA (NZ) 5000 for voluntary application by June 2025	Available	Medium	Issue NZ exposure draft or standard	June 2025
ISRE 2410	IAASB project commence April 2025. Consider XRB support for IAASB	TBD	TBD		
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	IAASB membership maintained Participate and lead a discussion at NSS meeting.				

IESBA

IESBA	2024/25 planned action	Resource	Priority/effort	Key deliverable	Due date
Sustainability ethics and independence revisions	IESBA expected to approve standard in Dec 2024 and issue in March 2025. Monitor developments and determine implications for XRB.	AH	High	Update PES 1	June 2025
Use of experts	IESBA expected to approve standard in Dec 2024 and issue in March 2025. Monitor developments and determine implications for XRB.	NB	High	Update PES 1	June 2025
Collective investment vehicles	Monitor ESBA's project on CIVs, pension funds and investment company complexes – ED expected in 2025	NB	Low	TBD	TBD
Profession agnostic independence standards for sustainability assurance not in scope of Part 5	TBD		TBD		
Post implementation review of non-compliance with laws and regulations (NOCLAR)	Participate in IESBA PIR	To manage	Medium	TBD	TBD
Participate in NSS meetings/regional groups/advisory groups/task forces/host international guests	Host IESBA members/staff Participate and lead a discussion at NSS meeting.		TBD	TBD	TBD

## NZAuASB Planned actions for 2022-2027

The XRB's overarching strategic intention is to promote and facilitate effective decision making for resource allocation. We enable high quality, trusted, and integrated reporting through the provision of robust frameworks and standards that are internationally credible, while being relevant to Aotearoa New Zealand so that reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

The primary purpose of this plan is to establish the NZAuASB's planned actions to support the XRB's strategic intentions and priorities for the period.

The XRB's activities are grouped into five outputs. The NZAuASB's activities relate most specifically to:

- Output 3 – Prepare and issue Auditing and Assurance (including Ethical and Professional) Standards and other related services Standards
- Output 5 – Liaise with and influence of international bodies through participation in meetings and making of submissions

In support of the XRB's Statement of Intent 2022-2027, the NZAuASB's planned actions for the 2022–2027 period are built around four pillars:

1. Lead to ensure stakeholders understand the purpose and value of reporting standards and are informed of international developments.
2. Influence through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest.
3. Collaborate with stakeholders, with a greater emphasis on Māori, throughout the lifecycle of developing standards and ensure external reporting and assurance gaps are identified, understood, and addressed.
4. Respond to stakeholder input and a fast-changing external reporting landscape to ensure our standards and guidance are robust and sustainable.

The key strategic intentions and priority areas for assurance include:

- a. Assurance over non-financial disclosures including Greenhouse gas assurance engagements. With the rise in demand for assurance over reporting of non-financial information the XRB will be working with a broader group of stakeholders to promote and facilitate a common understanding of what "assurance" means in the context of broader non-financial reporting, and to provide the right foundation and tools to those delivering assurance services
- b. Audit of Service Performance Information
- c. Audit quality reforms. There is considerable international and domestic activity examining trust and confidence in external reporting, including audit quality and the independence of audit firms. The XRB will continue to monitor and work with the key stakeholders in the reporting supply chain to consider how the issues identified could impact New Zealand and how best these should be addressed in New Zealand.

Other priority areas include: Non-assurance services, Assurance over Financial Information Prepared in Connection with a Capital raising, Going Concern, Audit Evidence and the Public Interest Entity Definition.

**Output 3: Prepare and issue Auditing and Assurance (including Professional and Ethical) Standards and other related services Standards**

**Lead** – ensure stakeholders understand the purpose and value of standards and are informed of international developments

What we plan to achieve	How we plan to go about this /Measure of success
Influence and respond to international developments that impact New Zealand	<ul style="list-style-type: none"> <li>• Anticipate, monitor and respond to developments in international standard-setting structures and environment, and ensure that stakeholders are well informed.</li> <li>• Monitor outcome of stakeholder collaboration on audit quality reforms.</li> <li>• Promote an understanding of factors affecting audit quality by conducting events and developing thought leadership.</li> </ul>
Contribute to government policy work relating to audit and assurance to develop overall view of the system and how it could develop as appropriate	<ul style="list-style-type: none"> <li>• Understand, through effective engagement, the issues and challenges faced by various assurance practitioners</li> <li>• Work with regulators and other stakeholders to develop an overall view of the system and how it could develop in the future</li> </ul>
Understand the perspectives of different stakeholder groups on the role of audit in maintaining trust in New Zealand reporting and consider how best to respond to international developments	<ul style="list-style-type: none"> <li>• Conduct events as appropriate to understand perspectives and inform all participants in the external reporting supply chain about their role in maintaining trust, the role of assurance and the factors that affect audit quality</li> </ul>
Enhance the accessibility of the audit and assurance standards	<ul style="list-style-type: none"> <li>• Complete a feasibility assessment of the costs and benefits of introducing fully integrated digitised standards across all standards issued by the XRB.</li> <li>• Explore other opportunities to increase the accessibility &amp; usability of auditing and assurance standards.</li> </ul>

**Influence** – through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest

What we plan to achieve	How we plan to go about this /Measure of success
<p>Build and enhance strong international relationships with the IAASB, and the IESBA. Refine “influencing strategies” specific to each international board to influence the work of the IAASB and IESBA during appropriate stages of standard development</p>	<ul style="list-style-type: none"> <li>• Attend relevant meetings and events (including NSS meetings)</li> <li>• Meet with IAASB and IESBA members and staff and engage on key matters to New Zealand</li> <li>• Foster relationships with and support Australasian representatives on the IAASB and IESBA and those who are involved in relevant working groups</li> <li>• Respond, as appropriate, to requests for information from the IAASB, IESBA and any other relevant working groups.</li> <li>• Seek opportunities to present the results of XRB research (and other thought leadership) on topics of global interest at relevant IAASB or IESBA events and other international forums</li> <li>• Invite IAASB and IESBA members and staff to present at NZAuASB meetings and other XRB constituent outreach events</li> </ul>
<p>Maintain and enhance regional relationships</p>	<ul style="list-style-type: none"> <li>• Attend and contribute to AUASB meetings as required</li> <li>• Identify and prioritize joint AUASB/NZAuASB projects</li> <li>• Identify opportunities to work collaboratively with the Canadian auditing standards board, and other like-minded NSS</li> </ul>
<p>Facilitate debate, provide thought-leadership, participate in appropriate forums to enhance audit and assurance quality on priority topics</p>	<ul style="list-style-type: none"> <li>• Facilitate debate, provide leadership and participate in forums on topic including: assurance over non-financial information, audits of service performance information, non-assurance services fraud and going concern</li> </ul>



**Collaborate** with stakeholder with a greater emphasis on Māori, throughout the lifecycle of developing standards to ensure external assurance gaps are identified, understood, and addressed.

What we plan to achieve	How we plan to go about this /Measure of success
<p>Monitor the wider assurance environment, liaising with key participants in the financial and non- financial reporting “supply chain”, and consider the implications of developing issues for New Zealand auditing and assurance standards</p>	<ul style="list-style-type: none"> <li>• Monitor QA review results conducted locally and internationally and respond as appropriate.</li> <li>• Monitor issues arising from the implementation of the current suite of standards via media, public sources and relationship contacts and respond as appropriate.</li> <li>• Monitor modified audit reports and respond as appropriate.</li> <li>• Track research projects and respond as appropriate</li> </ul>
<p>Enhance the depth and breadth of engagement with existing and new stakeholders through new and existing communications and events</p>	<ul style="list-style-type: none"> <li>• Specifically target assurance practitioners from small firms, sole practitioners and assurance practitioners who are not accountants.</li> <li>• Broaden our stakeholder base to engage with a larger range of practitioners</li> <li>• Proactively seek opportunities to engage with those involved in the external reporting of Māori incorporated entities as needed.</li> <li>• Identify and implement innovative, targeted consultative methods</li> </ul>
<p>Awareness raising activities undertaken throughout the lifecycle</p>	<ul style="list-style-type: none"> <li>• Contribute to regular XRB Pitopito Kōrero, social media posts and alerts and conduct events to raise awareness, with a focus on “why the change”: <ul style="list-style-type: none"> <li>• of assurance practitioners about auditing and assurance standards.</li> <li>• of assurance users (where relevant) about auditing and assurance standards and the benefits of and options for enhancing credibility.</li> </ul> </li> <li>• Promoting awareness of the IAASB and the IESBA implementation support activities.</li> <li>• Supporting other relevant organisations that provide training and professional development.</li> </ul>
<p>Implement engagement strategies with key stakeholders</p>	<ul style="list-style-type: none"> <li>• NZAuASB to meet with major constituent groups on a rolling basis.</li> <li>• Meet with major constituent groups in other fora, including at events hosted by those groups.</li> <li>• Maintain strong working relationships at the operational level with key stakeholders.</li> </ul>

**Respond** to stakeholder input and fast-changing external reporting landscape to ensure our frameworks, standards and guidance are robust and sustainable

What we plan to achieve	How we plan to go about this /Measure of success
Issue all IAASB and IESBA based standards and guidance in accordance with our due process and convergence and harmonisation policy	100% compliance with due process and convergence and harmonisation policy Standards issued before the international effective date allowing for an appropriate implementation timeframe in New Zealand
Seek feedback on IAASB and IESBA standards on local relevance	Ensure that all appropriate due process requirements are satisfied through transparent, collaborative consultation
Issue NZ specific standards and guidance in a timely manner. Priorities include: <ul style="list-style-type: none"> <li>• Assurance over non-financial disclosures including GHG emissions</li> <li>• Audit of service performance information</li> <li>• Assurance over financial information prepared in connection with a capital raising</li> </ul>	100% compliance with due process and convergence and harmonisation policy <ul style="list-style-type: none"> <li>• Issue standard on assurance over financial information prepared in connection with a capital raising</li> <li>• Issue exposure draft on audit of service performance information</li> <li>• Issue exposure draft on greenhouse gas assurance engagements</li> </ul>
Seek feedback on NZ standards through transparent, collaborative consultation	Ensure that all appropriate due process requirements are satisfied through transparent, collaborative consultation
Undertake post-implementation reviews to assess understanding, use, impact and remaining/new gaps	Performing a post implementation review on the Compliance Engagement Standard jointly with the AUASB to determine if further guidance is needed.
Undertake or support evidence based research to identify gaps in standards or where guidance is needed	<ul style="list-style-type: none"> <li>• Identify applicable user needs research to undertake</li> <li>• Provide input on possible topics for academic research</li> <li>• Consider output of research available</li> <li>• Commission a research report on Key Audit matters</li> </ul>
Develop guidance material to support the consistent application of auditing and assurance standards	<ul style="list-style-type: none"> <li>• Developing Staff FAQs and other non-authoritative guidance material to support the consistent application of new and existing standards (where deemed required);</li> <li>• Promoting awareness of IAASB and IESBA implementation support activities through XRB constituency engagement activities.</li> <li>• Considering what further guidance is needed in the New Zealand environment and develop the guidance.</li> </ul>

**Output 5: Liaise with and influence of international bodies through participation in meetings and making of submissions**

Strategic pillar 2: Influence – through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest

What we plan to achieve and how we go about this	How we plan to go about this /Measure of success
<p>Influence the work of the IAASB and the IESBA during appropriate stages of standards development to ensure high-quality global standards that are both applicable in New Zealand and in the public interest</p>	<ul style="list-style-type: none"><li>• Facilitate debate and ensure assurance practitioners and relevant users of assurance reports are aware of the IAASB and the IESBA due process documents through effective use of communication technologies and platforms including on:<ul style="list-style-type: none"><li>○ Sustainability assurance</li><li>○ Going concern</li><li>○ Fraud</li><li>○ Audit evidence</li><li>○ Public interest entity definition</li></ul></li><li>• Responding, as appropriate, to the IAASB and the IESBA due process documents (consultation documents, discussion papers and exposure drafts) and doing so in consultation with the AUASB and the APESB where appropriate;</li><li>• Participating, as appropriate, in roundtables and other face-to-face due process related meetings organised by the international boards.</li></ul>

## NZAuASB Planned actions for 2022-2027

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**Output 3: Prepare and issue Auditing and Assurance (including Professional and Ethical) Standards and other related services Standards**

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Strategic pillar 2: Influence – through debate and thought-leadership to promote improved reporting processes and ensure high-quality global standards that are both applicable in New Zealand and in the public interest

What we plan to achieve and how we go about this	How we plan to go about this /Measure of success
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