

Summary of Proposals

Ethics Standard for Sustainability Assurance And Use of Experts Exposure Drafts

Summary of the IESBA's Proposals



March 2024

Submissions to XRB close 15 April 2024





What this summary covers

The XRB has developed this document to summarise two exposure drafts (ED) issued by the International Ethics Standards Board for Accountants (IESBA):

- [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) Exposure Draft \(ED\)](#). This ED outlines ethical and independence requirements for all professionals who perform sustainability assurance work. This ED is summarised on pages 3-7 of this document.
- [Using the Work of an External Expert](#). This ED proposes an ethical framework to guide both financial statement auditors and sustainability assurance practitioners in evaluating whether an external expert has the necessary competence, capabilities and objectivity in order to use that expert's work for the intended purposes. This ED is summarised on pages 8-10 of this document.

The XRB is consulting on these proposals to inform our submissions to the IESBA and to inform our ongoing work to explore the appropriate requirements for mandatory GHG emission disclosure assurance engagements or for voluntary assurance over climate statements. The XRB's focus is on the proposals that impact on assurance organisations and assurance practitioners. We seek your views on whether these proposals are appropriate for New Zealand and are profession agnostic to be implemented by all sustainability assurance practitioners by **15 April 2024**. IESBA is seeking views by **30 April 2024**.

Why are Ethical Standards for Sustainability important?

Sustainability assurance is expanding. With mandatory sustainability reporting regimes being established, stakeholders are looking to place trust and confidence over the reported sustainability information.

The IESBA and the International Accreditation Forum (IAF) have announced a [strategic partnership](#) to advance the use of these proposals. The IAF has announced that they intend to stipulate that national accreditation bodies should use the IESBA's proposed standard when accrediting and authorising conformity assessment bodies to carry out assurance work on corporate sustainability disclosures ².

In New Zealand, financial statement auditors are required to follow the IESBA Code of Ethics (the Code) adopted by the External Reporting Board [PES 1](#)¹. If the XRB the IESBA's sustainability proposals, assurance practitioners would need to follow these requirements if they provide assurance over publicly disclosed sustainability information prepared using a general-purpose framework in accordance with law or regulation. This would include climate statements issued by Climate Reporting Entities.

² When included in the ISO/IEC 17029 programme

How are the proposals structured?

The ED has been developed on the premise that sustainability assurance practitioners should apply the same high bar of ethical and independence requirements as auditors of financial statements.

The proposals are in a new Part 5. Part 5 stands alone for assurance practitioners that are not professional accountants.

The proposed ethical and independence requirements for sustainability assurance engagements are structured using a building block structure, covering the fundamental principles and conceptual framework, layering the ethical requirements and then the independence requirements.

For our stakeholders less familiar with PES 1, the diagram page 4 is intended to assist you navigate the proposals. For our stakeholders that are familiar with PES 1, this structure and language will be familiar. We have highlighted the newer sections.



Summary on a Page

Ethics and Independence Standards for Sustainability Assurance

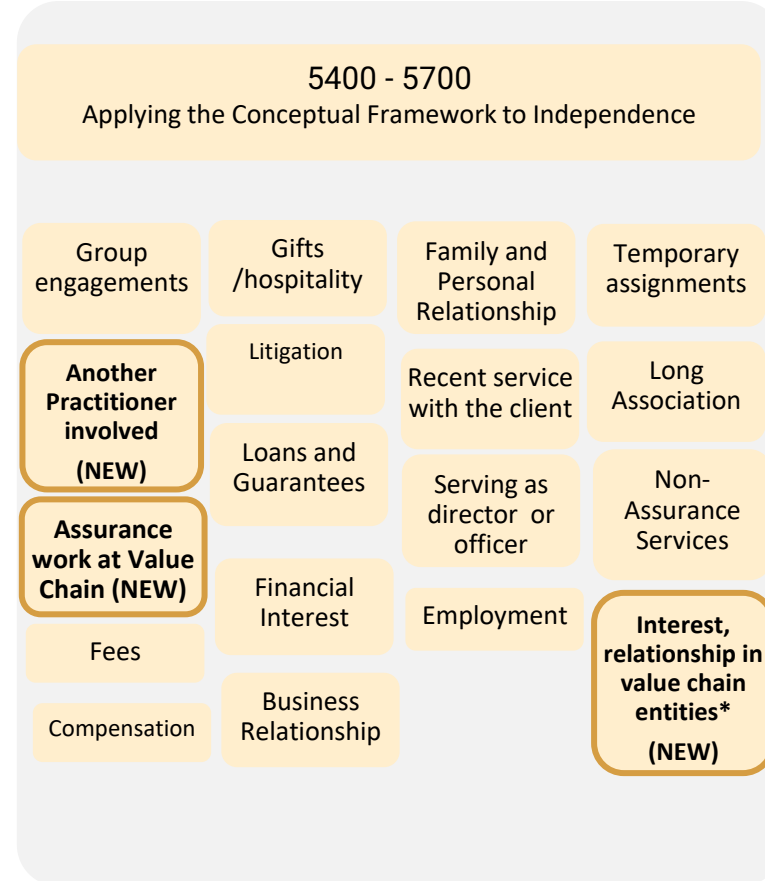
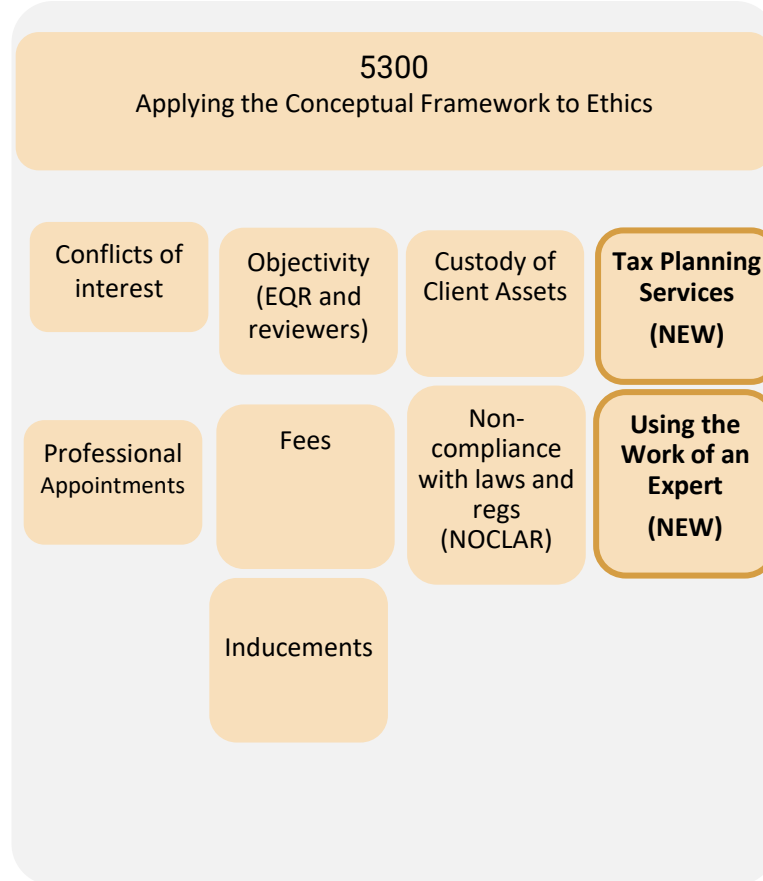
International Ethics Standards
Applicable to sustainability assurance engagements and professional services

International Independence Standards.
Some only apply to Public interest Entities (PIE)

5110
Fundamental Principles

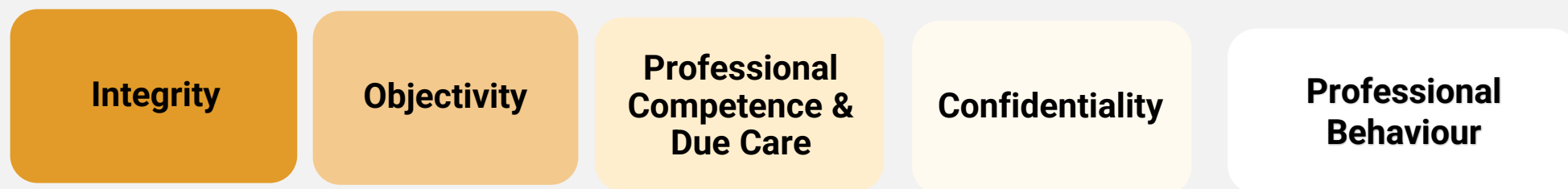
5120
Conceptual Framework

5200
Pressure to Breach



Fundamental Principles and Conceptual Framework

Sections 5110 -5120 set out the ethical principles that drive the expected behaviour of sustainability assurance practitioners. These fundamental principles are identical to those in the extant Code as shown below



Sustainability assurance practitioners may face situations which threaten their ability to comply with these fundamental principles. The proposals include a conceptual framework, as illustrated in the diagram, that requires practitioners to identify, evaluate and address threats which may impact their ability to comply with the fundamental principles.

The example situations included in the proposals are not intended to cover all situations that may cause threats to the fundamental principles. As such, when applying the conceptual framework all practitioners need to have an enquiring mind and exercise their professional judgement.



Applying the Conceptual Framework to Ethics

Section 5300 provides examples of how the conceptual framework should be applied to specific ethical situations that might create threats to the fundamental principles and what practitioners should do when this situation takes place.

It does not describe all facts and circumstances, professional activities, interests and relationships that could be encountered by practitioners and that might create threats to fundamental principles. The conceptual framework requires practitioners to be alert for such facts and circumstances.

New Sections

Included in this section are two considerations that do not appear in PES 1: tax planning – addressing potential threats to evaluate when a sustainability assurance practitioner provides tax planning services to a sustainability assurance client and use of experts.

Ethical requirements when providing tax planning services are in the newest additions to the Code for professional accountants. As Part 5 mirrors the other parts of the Code, the requirements have been mirrored for sustainability assurance practitioners.³

Use of experts is included in the separate exposure draft (see slides 8-10) and in the grey text in the sustainability ED [5390].

³ The adoption of tax planning services in Part 3 is outside the mandate of the XRB.

Non-compliance with Laws and Regulations

The section includes specific requirements for what a practitioner should do when they become aware that management or those charged with governance of the assurance client do not comply with laws and regulations.

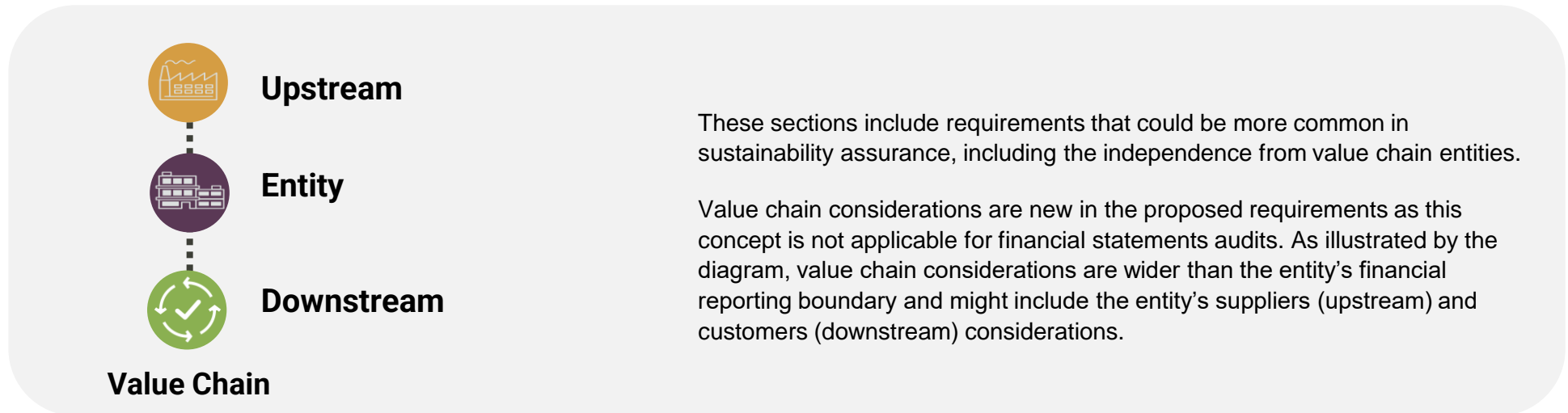
The proposal requires practitioners to:

- obtain an understanding of the matter, and
- discuss it with an appropriate level of management and those charged with governance to advise them to take appropriate and timely action to address the matter.
- communicate the matter to the financial statement auditor of the assurance client.

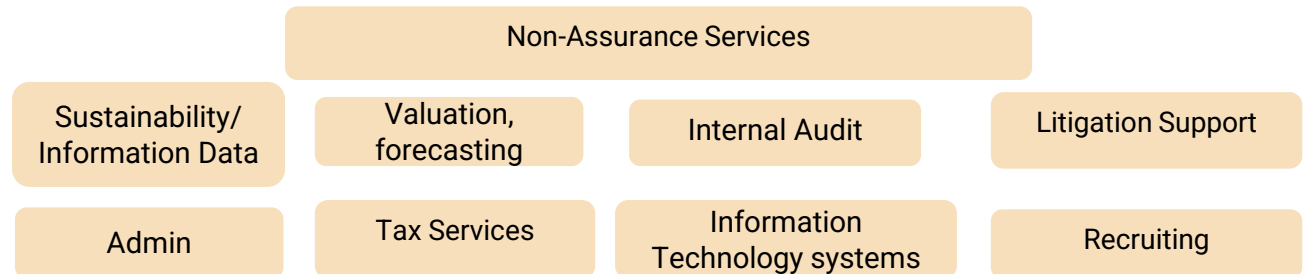


Applying the Conceptual Framework to Independence

Independence is a fundamental cornerstone for assurance. It is critical to allow for stakeholders to appropriately use assurance reports provided over sustainability information. Sections 5400 – 5700 include detailed requirements for sustainability assurance practitioners to ensure they remain independent. They outline processes for practitioners to apply the conceptual framework to identify, evaluate and address threats to independence when they arise in a range of circumstances illustrated on page 5.



The section also provides examples of common situations including the provision of non-assurance services that might create threats to independence, and potential actions that assurance practitioners can take to address these threats. The services considered under non-assurance services are included in the orange boxes.





Using the Work of an External Expert Exposure Draft

Introduction

The proposed new sections 390, 290 and 5390 propose a principles based ethical framework to guide professional accountants and sustainability assurance practitioners in evaluating whether an external expert has the necessary Competence, Capabilities and Objectivity (CCO) to use that expert's work for the intended purposes. These proposals impact on both **financial statement auditors** (Part 3 amendments) and **sustainability assurance practitioners** (Part 5 amendments) as they look to use the work of external experts as part of their assurance engagements.

The IESBA believes the proposals will serve the public interest as they will set a global benchmark for how to evaluate the CCO of external experts, and how to identify, evaluate and address the threats that might be created when using the work of an external expert.

Using the work of an external expert might create threats to a financial auditor, or sustainability assurance practitioner's compliance with the Code's 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. Threats to the fundamental principles might be created if the external expert and its work are not appropriately evaluated.



Summary of Changes

The main changes proposed by the revisions are:

- A new definition of “expert” and “expertise” to focus explicitly on individuals who have expertise outside of the assurance practitioner’s competence, and linking expertise to knowledge and skills in a particular field (and not experience);
- Revising the definition “external expert” to explicitly refer to who has engaged the expert and distinguish between external experts used for an audit engagement compared to an assurance engagement; and
- Establishing an ethical framework included below for assessing the competence, capability and objectivity of external experts, which involves requesting information from the expert.

Ethical Framework

The proposed ethical framework requires a financial auditor, and sustainability assurance practitioner to:

- **Agree the Terms of Engagement** with an External Expert and requesting specific information around the External Expert’s CCO;
- **Evaluate the External Expert’s CCO** through the specific information provided by the External Expert and consider whether this is appropriate for the assurance practitioner’s purpose;
- **Evaluate and Respond to Potential Threats** Arising from Using the Work of an External Expert by identifying, evaluating and addressing threats which may arise from using an External Expert’s work; and
- **Consider Other factors** which may be relevant in Using the Work of an External Expert, such as expertise in an emerging field or area, or inherent limitations in accessing information.



Summary of the Impact of the Proposed Changes

Current Position in the Code

What the Code addresses

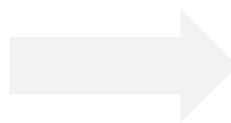
- Independence for experts consulted on audit/assurance

What the Code does not address

- External Experts whose work is used in audit/assurance
- External experts used for non-assurance services
- External Experts used by Professional Accountants in Business

What ISAs address

- Competence, capabilities and objectivity of auditors' experts
- Management's experts



Desired Position from Proposals

What the Code should/will address

- Independence for experts consulted on audit/assurance
- Competence, capabilities and objectivity for external experts used in any professional service
- Additional rigour for external experts whose work is used in audit/assurance including sustainability assurance engagements
- External experts used by professional accountants in business



Over to you...

We are keen to hear your feedback and this can be provided formally and informally.

The full consultation documents can be found here:

[IESBA's exposure draft and explanatory memorandum on Sustainability Ethics and Independence](#)

[IESBA's exposure draft and explanatory memorandum on Using the Work of an External Expert](#)

We are hosting focus discussions about these new proposals in March.

Register to attend at assurance@xrb.govt.nz

To provide feedback you can:



Our consultations close on 15 April 2024