

10 May 2024



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



1. Introduction

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ICAS' diverse membership is made up of over 23,000 world class business professionals who work in the UK and in more than 80 countries around the globe. Members of ICAS are also known by the letters CA, an exclusive professional designation in the UK.

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Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

We have considered the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: 'Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting' and our comments are set out below.

2. Key Points

Regulatory Framework

As noted in our response to the IESBA Consultation Paper: Proposed Strategy and Work Plan 2024-2027 in June 2023, we believe that it is of a high level of importance that the IESBA should focus on ethics standard-setting in relation to sustainability reporting and assurance and we support the work that IESBA is carrying out in this regard.

We agree that the public interest would be best served by having the same or equivalent ethics and independence standards apply to all parties providing assurance on sustainability related information. However, we do continue to have concerns around how, in practice, IESBA will be able to expand the scope of the Code to cover assurance providers other than Professional Accountants in Public Practice (PAPPs). We believe this can only be achieved if assurance providers other than PAPPs are to be required by respective jurisdictional regulators to adhere to the IESBA Code of Ethics or equivalent standards, and for there to be an appropriate sanctions regime for failure to comply. If non-professional accountants (non-PAs) are not required to use the Code by a regulator, we believe it is unlikely they will use it.

Transitional arrangements

The IESBA notes in paragraph 21 of the Explanatory Memorandum that the IESSA should be capable of being understood and applied by all practitioners of sustainability assurance engagements, including those who are not PAs.

We have concerns that this is a large, complicated document and that the sheer volume of information may be difficult for users to address. A consequence of this may be that it will act as a barrier to non-PAs entering the market, or remaining in the market, and that it may only be professional accountants (PAs) who are willing to use it. We agree that there should be a strong Code in this area, however, we believe there may be a need for transitional arrangements and that a simpler approach to begin with would be more effective.

We believe there is a need to focus on the key issues now that people can understand at the outset and then undertake a longer-term project for the detail as the market matures – the IESSA could be the right document in a few years' time when there is a stronger market of PAs and non-PAs.

We believe there is a need for a skeleton document around what needs to be achieved. Such a document could build on the existing Code requirements for PAPPs whilst providing guidance for non-PA providers to address stakeholder concerns about greenwashing.

Additional guidance to assist non-PAs

We believe that the proposed IESSA will generally be capable of being understood by those who are not PAs, however there is a need to be cognisant that there are users coming to the IESSA for the first time, having no previous knowledge of the IESBA Code of Ethics, so they may need additional signposting within the Code, such as including a Guide to the Code, and further explanation may be required to help those who are not familiar with the structure and language of the Code to understand the terminology.

Level playing field

We note paragraphs 5100.2a and 5100.2b and suggest this may not create a level playing field for PAs and non-PAs as Part 4B is 'encouraged' for non-PAs but it is not contained within Part 5 of the Code. The consequence of this being that non-PAs have less obligations than PAs as PAs are required to use Part 4B. If there is to be a level playing field, we would suggest there is a need for Part 4B to also be included within Part 5.

Value chain entities

We believe value chain entities is a complex area and that more work is required by IESBA to arrive at a practicable approach.

3. Responses to the specific questions

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]

Yes – we agree that the proposals are, in general, equivalent to the ethics and independence standards for audit engagements in the Code.

We do however note the following:

Scope - Section 5100 - Complying with Part 5 – Introduction – General - Paragraph 5100.1

Paragraph 5100.1 states that 'It is **of public interest** that sustainability assurance practitioners act ethically....'. The Professional Behaviour principle at paragraph R5115.1

requires a sustainability assurance practitioner to 'Behave in a manner consistent with acting **in the public interest** in all professional activities and business relationships relating to sustainability assurance clients'.

We believe that it is 'in the public interest' that sustainability practitioners act ethically, rather than being 'of public interest', i.e. 'of interest to the public', and would therefore suggest the following amendment (in red) to paragraph 5100.1.

'5100.1 It is **of in the** 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.'

We also note that although paragraph 5100.1 mentions investors, it does not refer to shareholders - this may be seen as taking a rather short-term view.

Scope - Section 5100 - Complying with Part 5 – Introduction – General - Paragraph 5100.1a

Paragraph 5100.1a states: "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."

This paragraph refers to the need 'to have appropriate training to ensure their assurance skills are continually up to date with relevant developments.' There is an argument that this should also refer to training in technical, professional, business and technology-related skills in relation to the specific engagement i.e. reflecting the wording of paragraph 5113.1 A3 within Subsection 5113 – Professional Competence and Due Care as noted below:

"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."

Scope - Section 5100 - Complying with Part 5 – Introduction – General - Paragraph 5100.4b

Paragraph 5100.4b states the following:

"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."

We believe there ought to be a cross reference in this paragraph to the need for the practitioner still to consider the appropriateness of the framework. This is particularly the case in relation to entity-developed criteria.

Subsection 5115 – Professional Behaviour

Paragraph 5115.1 A1 states the following:

"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."

The equivalent paragraph in the extant Code states the following:

“115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.”

We are not clear what the proposed paragraph is trying to say and therefore suggest the following amendments (in red) to bring the wording more in line with the extant wording in the Code:

5115.1 A1 Conduct that might **adversely** 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 **would ~~to~~ have such an** effect.

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

Yes – we agree the proposals in Chapter 1 are profession-agnostic and framework neutral, although we do note in our responses to other questions areas where we believe further guidance may be required to assist with navigation and understandability.

However, we do have concerns that the IESSA is a large, complicated document and that the sheer volume of information may be difficult for users to address. A consequence of this may be that it will act as a barrier to non-PAs entering the market, or remaining in the market, and that it may only be professional accountants (PAs) who are willing to use it. We agree that there should be a strong Code in this area, however, we believe there may be a need for transitional arrangements and that a simpler approach to begin with would be more effective.

We believe there is a need to focus on the key issues now that people can understand at the outset and then undertake a longer-term project for the detail as the market matures – the IESSA could be the right document in a few years' time when there is a stronger market of PAs and non-PAs.

We believe there is a need for a skeleton document around what needs to be achieved. Such a document could build on the existing Code requirements for PAPPs whilst providing guidance for non-PA providers to address stakeholder concerns about greenwashing.

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]

Yes - we agree that the proposals in Chapter 1 of the ED are responsive to the public interest.

As noted in our response to the IESBA Consultation Paper: Proposed Strategy and Work Plan 2024-2027 in June 2023, we believe that it is of a high level of importance that the IESBA should focus on ethics standard-setting in relation to sustainability reporting and assurance and we support the work that IESBA is carrying out in this regard.

We agree that the public interest would be best served by having the same or equivalent ethics and independence standards apply to all parties providing assurance on sustainability related information. However, we do continue to have concerns around how, in practice, IESBA will be able to expand the scope of the Code to cover assurance providers other than Professional Accountants in Public Practice (PAPPs). We believe this can only be achieved if assurance providers other than PAPPs are to be required by respective jurisdictional regulators to adhere to the IESBA Code of Ethics or equivalent standards, and for there to be an appropriate sanctions regime for failure to comply. If non-professional accountants (non-PAs) are not required to use the Code by a regulator, we believe it is unlikely they will use it.

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]

We support the IESBA's definition of 'sustainability information' however we believe it would be more helpful to users if the IESBA and International Auditing and Assurance Standards Board (IAASB) used the same definition.

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]

We agree with your statement at paragraph 32 of the Explanatory Memorandum that '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.'

However, we note paragraph 36 of the Explanatory Memorandum which states the following:

“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.
- 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.”

We note that this may not create a level playing field for PAs and non-PAs as Part 4B is 'encouraged' for non-PAs but it is not contained within Part 5 of the Code. The consequence of this being that non-PAs have less obligations than PAs as PAs are required to use Part 4B. If there is to be a level playing field, we would suggest there is a need for Part 4B to also be included within Part 5.

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]

Yes – we agree with the proposed criteria for sustainability assurance engagements in paragraph 5400.3a.

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]

Yes – we support the inclusion of Section 5270 ‘Pressure to Breach the Fundamental Principles’ as we believe it’s important for sustainability assurance providers to understand that pressure exerted on, or by, a sustainability assurance practitioner might create threats to compliance with one or more of the fundamental principles, and also how to address those threats.

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]

Public interest

As noted in our response to Question 1, we believe that it is ‘in the public interest’ that sustainability practitioners act ethically, rather than being ‘of public interest’, i.e. ‘of interest to the public’, and would therefore suggest the following amendment (in red) to paragraph 5360.4:

‘5360.4 It is **of in the** 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 behaviour.’

Value chain

Paragraph 57 of the Explanatory Memorandum states:

“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.”

Is there not a difference with the value chain work being carried out by sustainability assurance practitioners because that work is on value chain information which then forms part of the client’s information? For example, very often issues in relation to modern slavery are further down the supply chain, and changes in legislation are beginning to take place around the globe, such as the US law (Uyghurs Forced Labour Prevention Act) which states that you cannot have access to the US market unless you can prove that there is no forced labour in the supply chain and the EU’s Corporate Sustainability Due Diligence Directive (CSDDD) prohibiting products made with forced labour from being imported into or exported from the European Union. Germany’s Supply Chain Act has fines of up to 2% of annual turnover for larger companies.

Paragraph 5360.7 A3 states the following:

“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 noncompliance 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.”

If, for example, a sustainability assurance practitioner discovers modern slavery in the value chain in the course of their work, is the Code rigorous enough when it states in paragraph 5360.7 A3: ‘The sustainability assurance practitioner might nevertheless find the guidance in this section helpful in considering how to respond in these situations.’?

Whilst we appreciate that value chains provide many practical challenges we question, given the current regulatory developments across the globe, whether the proposed approach in relation to NOCLAR in value chains would be deemed to be sufficient. Is there a risk that an SAP at a later date could be accused of ‘turning a blind eye’?

Communicating the Matter to the Sustainability Assurance Client’s External Auditor (R5360.18a and R5360.18a A1) / Communicating the Matter to the Client’s Sustainability Assurance Practitioner (paragraphs 360.18a and 360.18a A1)

In relation to the above, the Explanatory Memorandum Paragraph 63 states the following:

“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.”

We believe there is a need for practitioners to take great care in relation to confidentiality in these circumstances, and also for them to be aware that there are provisions in the Code in relation to when the SAP might have a duty or right to disclose confidential information. It might therefore be helpful to remind users of the Code, and particularly non-PAs, to refer to the fundamental principle of confidentiality in these paragraphs, by referencing Subsection 5114 (Subsection 114), or using wording similar to that used in paragraph 220.9 A2 (and paragraph 270.3 A4) (in red below) which refers to the need to remain alert to the principle of confidentiality:

“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:
 - o A relevant professional body.
 - o The internal or external auditor or sustainability assurance practitioner of the employing organization.
 - o Legal counsel.
- Determining whether any requirements exist to communicate to:
 - o Third parties, including users of the information.
 - o Regulatory and oversight authorities”

Reference may also need to be made here to paragraphs R5360.6 and 5360.6 A1 (and R360.6 and 360.6 A1) to reiterate that users need to remain alert to the potential issue of 'tipping off'.

Additional guidance - timing

We note that as an SAP responsible for signing the overall report, you would need to be alert to the timing of a NOCLAR communication from other practitioners and also from any other source i.e. what if you hear about it on the day of signing? As such, the learning/education of those new to this space is key. We appreciate that there are limits to the revisions possible in the Code, and such matters might need to be covered within Frequently Asked Questions.

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]

We support this proposal.

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]

We appreciate that there could be a potential issue with the determination of entities as PIEs for sustainability assurance engagements being based on their financial condition. However, on balance, we believe that IESBA's view at paragraph 82 of the Explanatory Memorandum is a reasonable, pragmatic approach in that, in order to avoid confusion, it would be preferable if the factors guiding the determination of entities as PIEs are the same as for the independence standards for audits of financial statements in Part 4A i.e. based on the extent of public interest in their financial condition.

We also note that paragraph 5400.13 refers the user to Part 4A to determine whether an entity is a public interest entity. We believe it would be helpful for users (particularly non-PA users) if this paragraph was more specific as to where in Part 4A this information can be found – suggested changes in red below:

'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 Section 400 (paragraphs 400.8 to 400.10 and R400.17 to R400.22) of Part 4A.**'

Related Entities

We believe the Related Entity paragraph R5400.27 (noted below) could be confusing for a non-PA sustainability assurance provider as whilst there is a definition of 'Related Entity' in the Glossary, this paragraph, (as well as other paragraphs throughout Part 5) also refers to 'direct or indirect control' and there is no definition of this. We suggest reference to some guidance around what is meant by 'control' would be helpful for non-PA users.

"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.”

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?

Conceptually we agree with the approach, however there are a number of practical challenges and we have concerns that non-PAs, with no prior knowledge of the Code, will have difficulty in understanding how to apply this in practice.

Period during which independence is required

Paragraph 405.14 A1 ‘The period during which independence is required’ references back to paragraphs R400.30 and 400.30 A1, however there is no equivalent paragraph in Section 5405. We suggest that a paragraph should be included here which references paragraphs R5400.30, 5400.30 A1 and 5400.30 A2, particularly to ease understanding and navigation for non-PAs.

(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”)?

Yes – we agree with (i) to (iii) above.

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]

Link between Section 5405 and 5406

We believe there needs to be a link in paragraph 5405.2 A1b to Section 5406 ‘Another Practitioner involved in a Sustainability Assurance Engagement for a Single Entity or Group’ to signpost that there are provisions which cover situations where the group sustainability

assurance firm is unable to direct, supervise and review the work of another firm. We suggest adding wording (from paragraph 5406.1 as noted in red below) to paragraph 5405.2 A1b as follows:

'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. **Section 5406 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.'**

['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."']

Similarly, Section 5406 could link to Section 5405. For example, a new paragraph 5406.1A could be added reflecting paragraph 5405.2 A1b wording:

'5406.1A 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, Section 5405 applies where the group sustainability assurance firm is able to direct, supervise and review the work of that firm.'

Confirmation of independence

Paragraph 97 of the Explanatory Memorandum states the following:

"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 • 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.)"

If the assurance work has already been carried out by the other assurance practitioner, and the assurance practitioner has not been subject to Part 5, and could also be a non-PA, how is an independence confirmation realistically going to be obtained from this practitioner?

We believe this section is not very helpful, particularly for non-PA users. Could some provisions be pulled from Section 5405 to assist with the areas to cover to confirm independence? For example, are the 'Independence Considerations Applicable to Component Auditor Sustainability Assurance Firms outside a Group Auditor Sustainability Assurance Firm's Network' closest to this scenario? (paragraphs R5405.11 to R5405.17)?

We are also not convinced that the intentions of IESBA as set out in paragraphs 98 and 99 below in the explanatory memorandum are included in Section 5406?

'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.’

What if independence of the other practitioner cannot be confirmed?

Paragraph 100 of the Explanatory Memorandum states the following:

“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.”

There are, however, no provisions contained within the Section 5406 regarding this scenario and what can be done if independence is not confirmed by the other practitioner.

Despite this situation not being a breach, we believe that a similar approach could be taken to that of the “Breach of an Independence Provision at a Component Sustainability Assurance Firm” provisions in Section 5405 (paragraphs 5405.22 to 5405.25) for further guidance in Section 5406. For example, paragraph 5405.25 states the following:

“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.”

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]

Yes – we support the proposed definition as discussed in paragraphs 102 and 103 of the Explanatory Memorandum.

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]

We would highlight that we believe value chain entities is a complex area and that more work is required by IESBA to arrive at a practicable approach. We have set out more detailed comments below.

Paragraph 109 of the Explanatory Memorandum states the following:

- “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:
 - o Where the work has yet to be carried out, the practitioner will comply with the relevant ethics, including independence, provisions of Part 5; or
 - o 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.)”

We believe that there may be issues in identifying a client’s value chain entities, and the sheer volume of value chain entities at some clients, including through potentially multiple layers of suppliers, may make it impossible in practice. Indeed, it may be that there is currently so much that is not known in this area that it is too early to address these matters. It might be that a full independence confirmation may not be possible at this stage and perhaps a threats and safeguards approach as per the conceptual framework and confirmation around conflicts of interest and self-review threats might be more practical.

We note that it may be possible to rely on a statement of independence from a sustainability assurance practitioner’s report, if that sustainability assurance practitioner is another firm subject to the requirements of Part 5. However, how can reliance be placed on that statement if a firm does not have a system of quality management in place? What if the sustainability assurance practitioner is a non-PA who is not subject to Part 5? How can reliance be placed on their statement of independence, particularly if the work has already been carried out?

As with Section 5406 above, there is no indication in Section 5407 as to what is to be done if independence is not confirmed.

It may be that if you had a valid report from the sustainability assurance practitioner –i.e. we relied on the report of XYZ in the value chain – you may be able to carve it out. This may not be a perfect answer but perhaps more practical.

Paragraph 5407.2 A1 (c) and paragraph 5407.6

We also note that in accordance with paragraph 5407.2 A1 (c) and paragraph 5407.6 “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.”

We understand that as per paragraphs R5407.3 and R5407.4 (and paragraph 5407.2 A1 (a) and (b)), independence is required for those performing sustainability assurance work at the value chain entity. However, our interpretation of paragraph 5407.6 (paragraph 5407.2 A1 (c)) is that the assurance provider can do assurance work on the sustainability information of the value chain entity without carrying out assurance work at the value chain entity, when the information is provided by the sustainability assurance client, in which case the firm doesn’t need to be independent of the value chain entity itself, only the sustainability assurance client.

We are not clear as to why the location of where the firm performs the assurance work impacts the independence requirement.

14. Where a firm uses the work of a sustainability assurance practitioner who performs the assurance work at a value chain entity but retains sole responsibility for the assurance report on the sustainability information of the sustainability assurance client:

(a) Do you agree that certain interests, relationships or circumstances between the firm, a network firm or a member of the sustainability assurance team and a value chain entity might create threats to the firm's independence?

Yes – we 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]

Independence Considerations When a Firm Intends to Use the Work of a Sustainability Assurance Practitioner at a Value Chain Entity

What if independence cannot be confirmed?

As with Sections 5406 and 5407, there is no guidance in this section as to what is to be done if independence is not confirmed. We believe more guidance is needed here. For example, could one consider materiality of the value chain information to the total, the reason the firm is not independent of the value chain etc?

Clarification of circumstances

We believe that the wording in paragraph 5700.2 could be amended to clarify the particular circumstance to which this relates (wording in red from explanatory memorandum paragraph 111 below):

'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, **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.** As such, 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.'

['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.']

Links between Section 5700 and Section 5407

We believe that all the provisions in relation to Value Chain Entities should either be contained within the one Section of the Code, or reference should be made to Section 5700

within Section 5407 (and vice versa), otherwise the additional provisions within Section 5700 could be inadvertently missed.

Section 5700 essentially relates to the scenario in 5407.2 A1 (b):

“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.”

This is covered in “Independence Considerations When a Firm Intends to Use the Work of a Sustainability Assurance Practitioner at a Value Chain Entity” in paragraphs 5407.4 and 5407.5. A link could therefore be made here to Section 5700 using wording along the following lines:

5407.xx 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, 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. As such, 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. Section 5700 sets out application material relevant to applying the conceptual framework in such circumstances.

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]

Yes – we agree with the IESBA that the 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) should also be applicable when the firm provides NAS to a sustainability assurance client.

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?

We question whether there is a need for all the different types of services included within Subsections 5601 to 5610, as many may not be applicable to sustainability assurance providers as they are finance related, while there could be other services that are more applicable.

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

We are not aware of any other NAS at present that should be addressed in Part 5.

However, we believe there would be merit in preparing frequently asked questions post finalisation that would cover matters such as work performed by firms to educate clients on sustainability reporting ahead of them potentially subsequently providing sustainability assurance for the client.

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]

Subject to any restrictions on services / fee multiples etc that may apply in this situation, in principle we do not see why there should be a conflict in relation to fees, especially as IESBA envisage the same independence standards applying to both engagements.

However, there could be a perception of a threat e.g. an adverse finding on the sustainability assurance engagement could threaten both engagements and vice versa. We therefore understand IESBA's observation in paragraph 125 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.

We are also concerned that if the signing dates for both the audit and sustainability assurance engagements are not the same, this potentially could have an impact on the level of any threat that might exist to objectivity.

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?

The IESBA noted in paragraph 21 of the Explanatory Memorandum that the IESSA should be capable of being understood and applied by all practitioners of sustainability assurance engagements, including those who are not Pas.

We believe in general that the proposed IESSA will be capable of being understood by those who are not PAs, however there is a need to be cognisant that there are users coming to the IESSA for the first time, having no previous knowledge of the IESBA Code of Ethics, and therefore they may need additional signposting within the Code.

We believe there are a few areas where further explanation may be required to help those who are not familiar with the structure and language of the Code, to understand the terminology. For example:

Guide to the Code

We believe that the "Guide to the Code" in the extant Code should be tailored for Part 5. A flowchart (such as those in the Appendices to the Explanatory Memorandum) to easily help practitioners to identify the part of the Code applicable to them would be useful, particularly for non-PAs not used to using the Code. This might also be achieved by an online interface which would ask the user a series of questions and then present the Code as it applies to the individual concerned.

Scope – Section 5100 – Complying with Part 5 – Introduction – General

Paragraphs 5100.2 and 5100.2a discuss the scope of Part 5. Would it be helpful to spell out the scope of the International Independence Standards (IIS) upfront in this section, as well as in section 5400, rather than just referring users to another section? Alternatively, in addition to referring to paragraphs 5400.3a and 5400.3b in paragraph 5100.2 (b), also referring to paragraph 5400.3e in paragraph 5100.2a (in red below) would be helpful so users know where to look to find out which circumstances would not be within the scope of the IIS.

'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 **as set out in paragraph 5400.3e.**'

Engagement Team and Sustainability Assurance Team

We believe the engagement team and sustainability team paragraphs at 5400.8 to 5400.12 may be complicated for a non-PA sustainability assurance provider. We suggest, for example, including the diagram used in the External Experts ED Explanatory Memorandum at Paragraph 43, which would be easier to understand. There might also need to be a brief explanation at the start of these paragraphs to assist non-PAs to understand why this distinction is being made.

Leader versus Key Sustainability Assurance Leader versus Engagement Leader

There are several different types of 'Leader' defined in the Code – 'Leader' versus 'Key Sustainability Assurance Leader' versus 'Engagement Leader' – with different terms being used in different parts of the Code. This may prove confusing for a non-PA so there may be a need to highlight that there is a distinction between all these terms and to provide examples to help non-PAs better understand that they need to pay attention to the distinction.

Reporting period

We believe the "Period during which independence is required" is not entirely clear, particularly R5400.30 (b). Paragraph R5400.30 states the following:

"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."

For an audit, paragraph R400.30 (b) is clear as it states the following: 'The period covered by the financial statements.' Particularly for non-PAs, could a further sentence be added in paragraph 5400.30 A2 to explain further what "The reporting period for the engagement means?". Suggestion in red below:

'5400.30 A2 **The reporting period for the engagement is the period covered by the sustainability assurance report.** 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.'

This wording echoes the wording in Section 5522 'Recent Service With An Audit Sustainability Assurance Client' where paragraph R5522.3 states: "The audit sustainability assurance team shall not include an individual who, during the period covered by the sustainability assurance report...."

Sustainability Assurance Clients that are Public Interest Entities

In relation to paragraph R5410.21 (a) (ii) noted below, is there a risk this provision might not be considered objective? Would a reasonable and informed third party consider this to be an objective assessment?

"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."

Section 5350 'Custody of client assets' and Section 5380 'Tax Planning Services'

We note the above Sections have been included within Part 5, however question whether such circumstances would be applicable for a non-PA – they could be providing entirely different services to their clients.

Paragraph 5100.2b

Paragraph 5100.2b (b) (iv) states: "Encounters suspected fraud or other non-compliance with laws and regulations by management, those charged with governance or other individuals at the firm". Should this refer to 'the firm'?

Also, paragraph 5100.2b (b) (vi) states: "Provides tax planning services to entities that are not sustainability assurance clients". Does it make sense to have an example in relation to the provision of tax services? Would a non-PA provide both sustainability assurance and tax services?

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

We have no other matters to raise.

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]

We believe it may be necessary to gauge how the IESSA is accepted by sustainability assurance practitioners in the marketplace, and by jurisdictional regulators, in the first instance before extending the scope of the Code to preparers of sustainability information.

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]

Yes – we agree the proposals in Chapter 4 of the ED are responsive to the public interest.

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]

Paragraph 220.4 A3

Paragraph 220.4 A3 states the following:

“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.”

We suggest referring at the end of this paragraph to the guidance at ‘Using the work of others’ (paragraph R220.7 and related application material) and ‘Using the output of technology’ (paragraph R220.8 and related application material).

Paragraph 220.6 A1

We suggest changing the order of this sentence (in red below) as reference is normally made firstly to financial and then non-financial information in the Code:

“220.6 A1 For example, when preparing or presenting ~~sustainability information or~~ pro forma reports, budgets or forecasts, ~~or sustainability information~~, the inclusion of relevant estimates, approximations and assumptions, where appropriate, would enable those who might rely on such information to form their own judgments.”

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

We agree with the examples.

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

We agree with the other proposed revisions.

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

Paragraph 100.2

We note that proposed changes in Section 200, and others, refer to “non-financial information, including sustainability information” and suggest that, for consistency, paragraph 100.2 does the same (see in red below):

“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 (including sustainability information) 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.”

Paragraph 120.13

Does it also need to be highlighted in the Code that an ethical organisational culture incorporates sustainability? Suggested change noted in red below:

“120.13 A2 The promotion of an ethical culture within an organization 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 organization;
- (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 organization adheres to ethical values in its dealings with third parties and in relation to sustainability matters.”

Paragraph 200.2

In paragraph 200.2, rather than just referring to “financial and other information”, we suggest the Code could specifically reference non-financial (including sustainability) information.

Suggested change highlighted in red below:

“Professional accountants in business might be solely or jointly responsible for the preparation and reporting of financial, non-financial (including sustainability) and other information, on which both their employing organisations and third parties might rely.”

Paragraph 200.6 A1

Paragraph 200.6 A1 provides a list of examples of threats. We suggest including a reference to non-financial (including sustainability) information.

For example – see suggested changes to the Code highlighted in red below:

“(d) Familiarity Threats

- A professional accountant being responsible for the financial or non-financial (including sustainability) reporting of the employing organisation when an immediate or close family member employed by the organisation makes decisions that affect the financial or non-financial reporting of the organisation.

(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.
 - The way in which financial or non-financial information is to be reported”

Paragraph 200.7 A3

The provision of non-financial information in relation to sustainability is relatively new and therefore the controls are unlikely to be as mature as an organisation's financial reporting controls. This information tends to be kept in a lot of areas in companies, and it is not necessarily finance people that are pulling together the data. The individuals that are providing the information might not always understand the importance of the trustworthiness of the data and that people are relying on the information. Professional accountants in businesses have a role as 'gatekeepers', ensuring that the protocols for ensuring the integrity of the data are in place.

To highlight in paragraph 200.7 A3 the importance of having strong internal controls over not only financial information but also non-financial information, see suggested change to the Code highlighted in red below:

"Systems of corporate oversight or other oversight structures and strong internal controls over both financial and non-financial, including sustainability, information."

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?

We support 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 the end of December 2024.



CA House, 21 Haymarket Yards, Edinburgh, UK, EH12 5BH

+44 (0) 131 347 0100

connect@icas.com

icas.com

 @ICASaccounting

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