

16 May 2024

Mr Ken Siong
IESBA Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Sir,

RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”) 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

For this ED, the Institute of Singapore Chartered Accountants (ISCA) sought views from its members through a 6-week public consultation and discussed the ED with members of the ISCA Ethics Committee (EC).

Two focus groups were moderated by EC Chairperson on 27 March and 2 April 2024 to consider inputs across all stakeholders, including professional accountants (PAs) who are sustainability assurance practitioners (SAPs), SAPs who are non-PAs and members from regulatory bodies.

We are generally supportive of the proposed IESSA as a common set of ethics and independence standards for use by SAPs, both PAs and non-PAs, with the aim to mitigate greenwashing and to foster greater public trust in sustainability reporting and assurance.

Our comments to selected questions in the ED are as follows:

Main Objectives of the IESSA

Question 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?**
- (b) Profession-agnostic and framework-neutral?**

We agree and support having the IESSA, contained in a new Part 5, to be equivalent to the ethics and independence standards for audit engagements in the extant Code, profession-agnostic and framework-neutral. This is consistent with the views we heard from PAs through our outreach.

Whilst we are of the view that Part 5 is profession-agnostic and framework-neutral, paragraph 5400.3f states the expectation that the SAP has a system of quality management designed, implemented and operated in accordance with applicable quality management standards. For example, proposed International Standard on Sustainability Assurance (ISSA) 5000 requires compliance with ISQM 1 or other legal, regulatory or professional requirements that are at least as demanding as ISQM 1¹.

SAPs who are non-PAs currently apply and are familiar with terms and concepts used under ISO/IEC 17029 *Conformity assessment – General principles and requirements for validation and verification bodies*. We understand that ISO/IEC 17029 contain ethical principles and requirements. However, there is a lack of clarity over the similarities or differences between ISO/IEC 17029 and the IESSA and ISQM 1.

Hence, we view the strategic partnership of the IESBA and the International Accreditation Forum (IAF) as a necessary and important step to facilitate the adoption of the IESSA by SAPs who are non-PAs, especially with IAF's stipulation to national accreditation bodies around the world that IESSA are to be used when accrediting and authorizing conformity assessment bodies to carry out assurance work on corporate sustainability disclosures².

In order for the IESSA to be adopted by all SAPs, it is critical for non-PAs to be clear what needs to be done, whether they can continue to apply ISO/IEC standards (for example, ISO/IEC 17029) or are there fundamental differences between ISO/IEC standards and ISQM 1 that require them to top up work. Clarity is key to obtain buy in from SAPs who are non-PAs to adopt the IESSA for there to be a level playing field for all SAPs.

To support the adoption of the IESSA by SAPs who are non-PAs, we also urge IESBA to collaborate with and obtain the commitment of IAF and other conformity assessment and accreditation bodies³ to mandate IESSA as the go-to ethics and independence standard.

[Scope of Proposed IESSA in Part 5](#)

Question 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?

¹ Paragraph 400.4 of extant Code: *"ISQM 1 requires a firm to design, implement and operate a system of quality management for audits or reviews of financial statements performed by the firm. As part of this system of quality management, ISQM 1 requires the firm to establish quality objectives that address the fulfilment of responsibilities in accordance with relevant ethical requirements, including those related to independence. Under ISQM 1, 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."*

² On [5 February 2024](#), the IAF and the IESBA announced a strategic partnership to advance the use of a common framework of high standards of ethical conduct to underpin trust in the assurance of sustainability information. Amongst the key elements of the agreement, the IAF and the IESBA will collaborate to determine how to incorporate the IESSA as part of the accredited verification activities of ISO/IEC 17029-compliant programs as they apply to assurance of sustainability information.

³ For example, IAF issued a joint statement on sustainability assurance with five other leading organisations on [17 July 2023](#). These include Independent International Organisation for Assurance ([IIOA](#)), IQNET Association – The International Certification Network ([IQNET](#)), [ISEAL](#), [TIC Council](#) and United Nations Development Programme ([UNDP](#)).

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.*

5400.3e *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.*

Paragraph 5400.3e sets out examples of sustainability assurance engagements (SAEs) that are not within the scope of Part 5. In such SAEs, SAPs who are PAs have to comply with Part 4B, but non-PAs are only encouraged to do so.

It is understandable that SAPs will need time to implement and adopt the IESSA. Hence, the proposed scope of Part 5 would be a practical approach as it applies to mandatory assurance (i.e., those required by law or regulation) and generally excludes voluntary assurance (except reports in accordance with a general-purpose framework and publicly disclosed). Focusing on mandatory assurance for a start will ease implementation efforts by SAPs who are non-PAs and facilitate enforceability of the Code by local regulators.

However, we received feedback from PAs that for example, a restricted use and distribution report made available to the bank for green financing may affect more stakeholders and have greater financial impact than one that is required by law or regulation or publicly disclosed.

If the intent is to have a set of profession-agnostic standards to level the playing field for SAPs, then IESBA should consider whether the scope of Part 5 should apply to all SAEs in the longer term (i.e. including SAEs under paragraph 5400.3e).

NOCLAR

Question 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?

The auditor may or may not be aware of all the SAPs who are performing SAEs for the same sustainability assurance client especially in the context of group audits. Furthermore, given the diverse scope and nature of SAEs, it will be challenging for the auditor to identify all the relevant SAPs who might be affected by any (actual or suspected) NOCLAR and hence, need to communicate to them. As such, we suggest that IESBA remove the proposed paragraph R360.18a and only require that SAPs consider whether to communicate NOCLAR to the auditor (proposed paragraph R5360.18a).

Group Sustainability Assurance Engagements

Question 10. The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.

- (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) (iii) If you support addressing group sustainability assurance engagements in the IIS in Part 5, do you agree with the proposed defined terms in the context of group sustainability assurance engagements (for example, “group sustainability assurance engagement” and “component”)?**

At this juncture, SAPs shared that sustainability assurance work is usually performed centrally without reliance or use of component teams. SAPs who are PAs support the proposed Section 5405 as they envisage that they will implement the requirements for group SAEs in the same manner as what they currently do on group audit engagements.

On the other hand, SAPs who are non-PAs may not be familiar with the concepts of group audits/SAEs and dealing with components. They will need time to understand proposed Section 5405 and establish group reporting structures or systems to comply with the IESSA.

In Singapore, we understand there are local accreditation requirements for the lead verifier and independent reviewer that provide third-party greenhouse gas verification services. Non-PAs who are familiar with the accreditation process have asked whether the lead verifier and independent reviewer are equivalent to the terms, “engagement leader” and “engagement quality reviewer”, used in the IESSA.

Consistent with our response to Question 1, it is critical for non-PAs to understand how the accreditation concepts compare with those in the IESSA and the extent of work needed to be done to bridge the gap before they can adopt the IESSA. Hence, we propose that IESBA work closely with conformity assessment and accreditation bodies to provide clarity on the similarities and differences between terms and concepts used in the IESSA and relevant conformity assessment and accreditation standards.

Definition of “group sustainability assurance client”

The definition of a group audit client in the Code includes consideration of its “related entities” and any other “components” at which audit work is performed. The concept of “components” and determination of components at which to perform audit work are contained under International Standard on Auditing 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (ISA 600).

However, there is no equivalent of ISA 600 for group SAEs and determination of “components” for purposes of a group audit should be separate from consideration of “components” at which to perform assurance work for purposes of group SAEs.

Hence, we suggest that IESBA refine the definition of a “group sustainability assurance client” to include “entities at which assurance work is performed”. This would avoid confusion with use of the terms “related entities” and “components” in the context of group audits and facilitate application. At the same time, IESBA should also work with the International Auditing and Assurance Standards Board (IAASB) to address issues relating to group SAEs in ISSA 5000 for example, aligning terms and concepts used.

Using the Work of Another Practitioner

Question 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?

The notion of "using the work" of another practitioner who is not under the SAP's direction, supervision and review needs to be explained and applied in a consistent manner.

When the SAP performs review of (aspects of) another practitioner's work, this would be the appropriate context of "use the work" as the SAP is able to look at the underlying work and determine if it is appropriate for their purposes. Usually this takes place because the work performed by the other practitioner is significant to the SAP's assurance opinion. The SAP is not performing contemporaneous direction, supervision and review, but is still able to review (for example, where the work has already been done for another purpose), and this review could be quite extensive. In this case, it is appropriate for the SAP to obtain confirmation of the other practitioner's independence.

On the other hand, "use" could refer to the sustainability assurance client providing the other practitioner's report as evidence to support the client's sustainability information. The information could form part of evidence, but through the lens of whether the information is relevant and reliable, as opposed to whether the other practitioner is independent. In such circumstances, imposing independence requirements seems unnecessary and would likely not be practicable.

The other practitioner, in this case, is neither performing work for, nor are they in a position to influence, the engagement. Therefore, if, in fact, using the work of another practitioner is intended to include circumstances where the client has provided the assurance report as evidence to support assertions about the client's sustainability information, this creates independence requirements that extend beyond what is required for a financial statement audit. The independence considerations laid out in proposed Section 5406 should be limited to where the SAP has performed a review of the other practitioner's work.

As ISSA 5000 also contains provisions on "using the work of another practitioner", IESBA should coordinate with the IAASB to align the notion of "using the work" and the concept of "another practitioner" in the IESSA and ISSA 5000.

If the SAP determines to use the work of another practitioner where the work has already been carried out, that other practitioner might have complied with Part 4B of the Code or might not have been asked/aware of the need to comply with the Code. In this regard, IESBA might consider granting a transition period for the other practitioner to meet the independence requirements under Part 5 to comply with proposed paragraphs R5406.4 and R5406.5.

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

Question 12. Do you support the proposed definition of “value chain” in the context of sustainability assurance engagements?

We support the proposed definition of a “value chain” and recommend that IESBA coordinate with the IAASB to align the scope of the new defined term with that in the ISSA 5000 which is being developed. For example, whether the scope of a “value chain” includes components in the context of group SAEs.

Question 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?

Practical challenges might be faced in addressing independence considerations relating to value chain entities (VCEs) given how extensive a value chain could be and considering information relating to VCEs might not be easily accessible as the VCEs may not be part of the client’s group structure.

For example, a firm might provide mandatory assurance over Scope 1 and Scope 2 emissions of client A which forms Scope 3 emissions of another sustainability assurance client B. During the client or engagement acceptance phase of client B, the firm might not have access to information on client B’s VCEs and to find out if client A is a VCE.

In addition, compliance with proposed Section 5407 is anticipated to be monitoring intensive for most firms due to the multitude of entities that might be caught within scope of VCEs. For example, a client that is a utilities provider could be a material supplier and VCE of many other entities. Should the proposed Section 5407 go forward, it may lead to a scenario that limits choice in the market by clients for SAPs, as there may not be sufficient competent and independent practitioners to perform SAEs, or a scenario where there is inability for some SAPs to obtain sufficient appropriate evidence, leading to scope limitations. Neither of these scenarios would be in the public interest. It would also limit the ability of companies to engage service providers for non-assurance services without creating a self-review threat, especially in the case of companies that may be in the value chain of many entities such as key utilities providers.

Consistent with our response to Question 11, if the SAP determines to use the work of another practitioner where the work has already been carried out, IESBA might consider granting a transition period for the other practitioner to meet the independence requirements under Part 5 to comply with proposed paragraph R5407.5.

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

Question 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)?

If the firm performs both audit and sustainability assurance engagements for the same client, it is required to disclose fees for sustainability assurance services as non-audit fees.

There is a perception that auditor independence is compromised where a large proportion of fees is generated from non-audit services such as sustainability assurance services, relative to audit fees. Hence, the auditor is required to consider safeguards to address threats to its independence associated with a large proportion of non-audit to audit fees.

We recommend that IESBA consider introducing the concept of “audit-related services” (ARS) in the Code to reflect non-audit services where the work is closely related to the work performed in the audit engagement or SAE and include reporting required by law or regulation.

ARS will include sustainability assurance services where threats to auditor independence are clearly insignificant and ARS fees will be scoped out from the computation of non-audit to audit fees. This would avoid the situation where the client chooses another assurance provider over the auditor due to the perceived threat to auditor independence.

Effective Date

Question 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 that of ISSA 5000. We also suggest for IESBA to collaborate with IAASB to allow jurisdictions the flexibility to determine and stagger the effective date(s) depending on when the respective jurisdiction’s laws or regulations mandate the adoption of IESSA and ISSA 5000.

Should you require any further clarification, please feel free to contact Mr Terence Lam at terence.lam@isca.org.sg, Ms Alice Tan at alice.tan@isca.org.sg or Ms Ng Shi Zhen at shizhen.ng@isca.org.sg.

Yours faithfully,



Mr Wai Geat, KANG
Divisional Director
Professional Standards