

10 May 2024

Mr. Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue
New York, New York 10017
USA

Re: Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA), and other revisions to the code relating to sustainability and reporting

Dear Mr. Siong,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) Exposure Draft (ED) in respect of the *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA), and other revisions to the code relating to sustainability and reporting* (the ED).

General comments

BDO welcomes and is generally supportive of the aims of introducing the ED into the IESBA Code in setting out the ethical requirements in the context of Sustainability Assurance and Reporting.

BDO does however disagree with certain of the proposals contained in the ED. Particularly, BDO disagrees with the IESBA's proposal to extend the independence requirements of the IESBA Code to material value chain entities, unrelated to the sustainability assurance client, in the IESEA.

BDO considers this proposed extension of the independence requirements to be a **fatal flaw** and believes that this is inconsistent with the IESBA's main objective of making the IESEA equivalent to the ethics and independence standards for audit engagements. BDO is concerned that given the potentially large and dynamic populations of value chain entities for each sustainability assurance client, and the presumed lack of an ownership or management relationship between the client and the value chain entity, the development and operationalization of systems and procedures for maintaining independence from these entities will be both difficult and costly, representing a high barrier to entry for prospective sustainability assurance practitioners (accountants and non-accountants). BDO believes that this is not in the public interest.

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More specific comments, as well as recommendations, are included in our responses to the specific questions below.

Responses to Specific Questions

PART A: Sustainability Assurance

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**?

BDO disagrees, with the following additional comments:

- (a) BDO agrees that by basing the proposed Part 5 (IESSA) on Parts 1-4 of the IESBA Code, the IESBA has ensured the IESSA is generally equivalent to the Code's ethics and independence standards that apply to the conduct of professional accountants and to the performance of audit and review engagements.

BDO has made comments on **significant aspects of the ED that are not, in BDO's view, equivalent** to the Code's ethics and independence standards for audit and review engagements in response to Questions 4 and 13 below.

- (b) Given that the draft IESSA is based on, and incorporated into, the established IESBA Code, developed over many years by and for accountants, and includes concepts such as the 'fundamental principles', 'conceptual framework' and 'professional skepticism', **BDO finds it difficult to conclude that it is either profession-agnostic or framework-neutral**. However, BDO sees no reason why the IESSA could not be adopted and implemented by other standard-setting boards and firms performing sustainability assurance engagements from outside of the accounting profession.

Recommendations:

BDO does foresee that it will take those outside of the accounting profession longer to come to grips with the IESSA, taking steps to narrow the gap by enhancing their policies and procedures, and to implement it in an effective and consistent manner. This may affect the usability and attractiveness of the standard for non-PA practitioners. The impact of this should be carefully considered by the IESBA, given that its use will be voluntary for many non-PA practitioners. BDO also recommends that the IESBA takes this into consideration when deciding on the effective date.

Question 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?

BDO agrees that in general the proposed IESSA is responsive to the public interest and exhibits the characteristics listed in the Public Interest Framework, subject to our comments on Questions 4 and 13.

Definition of Sustainability Information

Question 3

Do you support the definition of “sustainability information” in Chapter 2 of the ED?

BDO agrees with no further comments.

Scope of Proposed IESSA in Part 5

Question 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?

BDO disagrees, with the following additional comments:

BDO believes the IESBA’s **scope** for the ethics standards in Part 5 **should be wider** (see the recommendation below).

Part 5 - Ethics, forms the base for the provision of services to sustainability assurance clients prior to applying the more stringent provisions related to objectivity and integrity within either Part 5 - Independence or Part 4B (depending on the nature of the assurance engagement).

Part 5 - Ethics, mirrors Part 1 of the Code in terms of the Fundamental Principles and the Conceptual Framework by applying a sustainability lens.

Part 5 - Ethics mirrors Part 3 of the Code, as an example, conflicts of interest, NOCLAR, Reviewers, Professional Appointments etc. are considered for all engagements regardless of whether the client is an assurance or audit client under Part 3 and are typically assessed as part of client and engagement acceptance and continuance procedures.

Having these requirements mirrored in Part 5 - Ethics, for services to sustainability assurance clients provides practical application and guidance on how the fundamental principles set out in Part 1 and Part 3 are considered more closely in the context of a sustainability assurance engagement prior to the independence assessment under 4B or Part 5 - Independence. This in our view is helpful and assists in bridging a gap between Part 1 and 3 in relation to Part 4B and Part 5 - Independence, in that the application of this is specific to sustainability assurance clients.

A **gap** still exists in that **other assurance engagements** that are not sustainability related **don’t have the necessary clarification in relation to the application of Part 1 and 3 under Part 4B**, however this may be due to the diverse nature of other assurance engagements and as such may not be feasible.

Recommendations:

As discussed in paragraphs 31-34 of the Explanatory Memorandum, the IESBA has chosen to apply the requirements of the IESSA to a practitioner’s performance of sustainability assurance engagements and any other services **for the same clients only**. It does not feel credible that a practitioner would be able to ‘switch on and off’ compliance with ethical standards depending on the type of engagement. BDO questions, for instance, how it would be acceptable to behave in accordance with the fundamental principle of professional behaviour in only part of a professional’s working life. BDO, therefore, think that the **broader alternative of applying the same ethical requirements to the general conduct of non-PA practitioners** performing sustainability assurance engagements would be

more consistent with, and equivalent to, the requirements applicable to the conduct of professional accountants who perform audit and review engagements.

In order to effectively safeguard stakeholder confidence in sustainability assurance and the public interest at large, there should be a 'level playing field' whereby other professionals and organisations who perform sustainability assurance engagements are expected to adhere to the same minimum ethical standards in the provision of their services, as professional accountants do.

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?

BDO is in agreement with IESBA applying the same level of public interest to sustainability assurance engagements as those applied to audits of financial statements as per the Exposure Draft. Our rationale for this is that **a sustainability assurance engagement is similar to a financial statement audit/review** in that sustainability and financial information and/or internal controls related to sustainability and financial **information originate from numerous functions within an organisation.**

It is BDO's view that this would be difficult to ring fence specific to the subject matter as per Part 4B of the Code. As an example, the prohibition on performing a management responsibility is applied to sustainability assurance engagements under Part 5 - Independence, in the same way as per Part 4A of the Code, where, regardless of the type of service, it is prohibited. Given the various functions within the organisation that are involved in gathering, recording, analysing, maintaining and controlling information that will be subject to procedures as part of a sustainability assurance engagement, application of the management responsibility provisions under Part 4A of the Code to all services rather than limiting the management responsibility assessment to subject matter overlap as per Part 4B of the Code, seems reasonable.

Given the **wide range of stakeholders** that use sustainability reporting in order to make various decisions, there is a **high level of public reliance** placed on this reporting. Leveraging off Part 4A of the Code provides the foundation to assess independence from Public Interest Entity (PIE) and non-PIE sustainability assurance clients differently, which aligns well with the level of public interest associated with the organisation (and therefore provides for scalability). Given the high level of public interest for purposes of PIE sustainability assurance clients, BDO believes it makes sense for **certain services and arrangements to be prohibited outright**, for example when a self-review threat is created by providing a Non-Assurance Service (NAS) to a sustainability assurance client or when financial interests in a sustainability assurance client are held by members of the sustainability assurance team.

Recommendations:

- In terms of practical application, BDO suggests that the IESBA considers referring to the engagements which are performed under Part 5 - Independence as a '**Sustainability audit engagement**' or as a '**Sustainability review engagement**'. This will avoid confusion with the application of Part 4B to other sustainability assurance engagements that do not fall within the scope of Part 5.
- **Aligning** the performance of sustainability assurance engagements with the **policies and procedures** in place within professional services firms for the performance of audits/reviews of financial statements, will require further **substantial consideration and work effort**. BDO recommends that the IESBA takes this into consideration and allows for sufficient time when deciding on the effective date.

Structure of Part 5

Question 6

Do you support including Section 5270 (Pressure to Breach the Fundamental Principles) in Chapter 1 of the ED?

BDO agrees with the proposal to add section 5270 to cover the relationship between the practitioner and his/her firm.

Recommendation:

Given that the IESSA is restricted to sustainability clients only, in our view, the **section can be tailored more, especially for non-PA practitioners**, dealing with an ethics issue when facing pressure from the firm or other colleagues when performing sustainability assurance or related services, e.g.:

- Paragraphs 5270.2 & R5270.3 can specify the section's scope, e.g. **only address the pressure from the firm or other colleagues** on sustainability assurance engagements or other services, while the pressure from the sustainability assurance client (incl. management and related parties) is addressed in other sections for example 5300, and thus the related application material can be adapted accordingly.
- The third point under paragraph 5270.3 A2, 'Pressure to act without sufficient expertise or due care' is more related to an intimidation threat from the client, which can be further detailed under section 5300, and the point about 'Pressure related to non-compliance with laws and regulations' can elaborate further on the pressure from the firm or other colleagues to overlook the non-compliance.

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**?

BDO disagrees, with the following additional comments:

BDO agrees that for coherent reporting of financial and sustainability information and assurance over such information, that it is important for the sustainability assurance practitioner and the external auditor to have the same information over any NOCLAR. However, considering that there is **no direct contractual relationship** between the sustainability assurance practitioner and the external auditor, any direct communication would not be covered by clear responsibilities and related consequences.

Section 5360.4 (b) establishes a requirement for the sustainability assurance practitioner to alert management or, where appropriate, Those Charged With Governance (TCWG). Based on the contractual agreement for the external audit, **management and/or TCWG are already responsible to share this information with the external auditor**. This appears to be the appropriate flow of information.

Local professional standards might also **prohibit** communicating engagement information (including suspected NOCLAR) to third parties, making such communication practically unfeasible.

Any direct communication between the sustainability assurance practitioner and the external auditor of specifically suspected NOCLAR **may prevent management and/or TCWG to respond** to any raised concern and clarify any potential NOCLAR first.

Communicating NOCLARs between the external auditor and the sustainability practitioner would need to be contractually covered in any **confidentiality clauses of engagement letters** between the auditor or practitioner and their client.

Furthermore, the proposed requirement in R5360.18a of **when to communicate is very subjective** and different interpretations in this regard may result in inconsistent implementation across practitioners and firms. The factors do not consider the extent or seriousness of non-compliance and how this would inform the requirement to communicate.

A practical consideration would also be whether the **external auditor would be expected to know** if the client has appointed a sustainability assurance practitioner and what their contact details are.

There are a number of NOCLAR obligations for both the external auditor and the sustainability practitioner. These obligations include reporting to management and/or other bodies. It is not clear who the obligation would be with and the current requirements seem to be that both would need to report. If the parties are in the same firm, there could be a firm wide process, but in **different firms**, there is a risk of inconsistent interpretations, and as a result inconsistent reporting to management and inconsistent determination whether to disclose the matter to an appropriate authority. It might be useful to clarify **who would be primarily responsible** for these actions or if there is any expectation for the parties to discuss and agree the way forward.

Due to different reporting matters, the sustainability assurance practitioner and the external auditor will likely obtain assurance over different processes and different information. Due to the different assurance objectives of these two engagements, any NOCLAR might be of **different relevance** for the engagements. This may lead to duplication of efforts when understanding and clarifying the facts and circumstances of the underlying subject matter.

Question 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)

BDO disagrees, with the following additional comments:

The same concerns around communication between third parties and different interpretations raised in Q7, are also relevant to Q8.

Determination of PIE's

Question 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?

BDO agrees with the proposal to use the determination of a PIE for the purposes of the audit of the entity's financial statements, as this will ensure that an entity's **classification remains the same** for purposes of both the audit of its financial statements and assurance over its sustainability reporting, thereby achieving **consistency**.

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?

In general, BDO **supports** the IIS in Part 5 specifically addressing group sustainability assurance engagements. BDO **appreciates the parallel** that is drawn in the Explanatory Memorandum **with ISA 600 (Revised)**.

Recommendation:

In BDO's view, not extensively addressing group assurance engagements in the Exposure Draft of the IAASB's **proposed ISSA 5000**, is a **significant shortcoming** in that Exposure Draft. BDO believes that group assurance engagements should be added to ISSA 5000 before its finalisation and then it can also be used as a basis in finalising the IESSA.

Practical challenges:

Anticipating practical challenges that may arise regarding group sustainability assurance engagements, BDO expects to face the following:

- **Knowledge** about sustainability assurance **differs between countries**. In Europe for example, auditors need to upskill quickly, because of the upcoming CSRD regulations, but in other Non-European countries this may not necessarily be the case.
- Where another practitioner whose work the firm intends to use is **not under the firm's direction and supervision**, it may be challenging to determine whether such practitioner does in fact have **sufficient knowledge** to perform sustainability assurance procedures at component level and specifically whether such a practitioner does have sufficient knowledge of the relevant ethical requirements, including those related to independence, and is able to identify threats to compliance with the fundamental principles (5300.6 A1).
- It is also uncertain whether the **quality management requirements** contained in ISQM 1 can be met, if the component assurance practitioner is a **non-PA**.

(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)?

Due to the **qualitative characteristics** of sustainability assurance engagements, as well as the **societal relevance** of sustainability information (as explained in paragraph 4 of the Explanatory Memorandum), BDO agrees that the independence provisions should be at the same level.

Recommendation:

It is important to note, that while the application of independence provisions in group audit engagements has been practiced for many years, it may be **overly ambitious** to expect the **same level of application from the outset** with regards to group sustainability assurance engagements. Therefore, it may be necessary to **approach** independence provisions in group sustainability assurance engagements with a **degree of caution and adaptability**, taking into account the **specific circumstances and complexities** of each engagement.

- 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?

BDO **agrees** with the proposed requirements regarding communication. BDO appreciates these **being in line** with the requirements for group financial statement audits contained in **ISA 600 (Revised)**.

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”)?

BDO agrees that the definition ‘group sustainability assurance engagement’ explicitly **addresses related entities** (R5400.27) and agrees that the definition ‘component’ explicitly **excludes** entities within the client’s **value chain**.

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?

BDO agrees with the proposed independence provisions set out in Section 5406, however has some clarifying questions and concerns, as it’s not clear exactly what would occur in practice:

Concerns:

- In the case of Section 5406, the assurance work has already been performed, so the **practitioner may not be independent throughout the entire period of the group sustainability assurance engagement**, but would have been independent during the performance of their assurance engagement through to its conclusion. BDO believes this would not impair their independence for the purpose of relying on that practitioner’s work.
- Requiring another practitioner to **apply the PIE independence rules** to a non-PIE client **after the fact** may create issues, when their work was not performed for this purpose nor were they aware of the other party’s intent to use their work. Perhaps it would be appropriate for them to confirm compliance with non-PIE independence rules only, which would extend to other entities when they know or have reason to believe that those relationships would impair their independence?
- BDO finds it difficult to envision situations where it would be in order to rely on another practitioner who is unable to confirm their independence in accordance with the necessary rule set.

It would therefore be helpful to have **examples** to clarify in what **situations** it would be appropriate to still rely on the assurance report of another practitioner **without them confirming their independence**.

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?

BDO agrees that the definition applied should be **consistent** with the **relevant sustainability reporting framework**. BDO’s concerns are in respect of the proposed independence considerations, as explained in the response to question 13 below, rather than the definition itself.

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?

BDO disagrees, with the following additional comments:

As discussed in paragraphs 102-114 of the Explanatory Memorandum, the IESBA has chosen to extend the independence requirements of the IESBA Code to material Value Chain Entities, unrelated to the sustainability assurance client, in the IESSA.

Firstly, the fact that this **only applies to material** Value Chain Entities **does not come across at all** in Section 5407.

Secondly, BDO considers the extension of the independence requirements to be a **fatal flaw** and believe that this is **inconsistent** with the IESBA's **main objective** of making the IESSA equivalent to the ethics and independence standards for audit engagements. BDO is concerned that given the potentially large and dynamic populations of value chain entities for each sustainability assurance client, and the presumed lack of an ownership or management relationship between the client and the value chain entity, the development and operationalisation of systems and procedures for maintaining independence from these entities will be both **difficult** and **costly**, representing a **high barrier to entry** for prospective sustainability assurance practitioners (accountants and non-accountants). This is **not in the public interest**.

Furthermore, the value chain entities are under **no obligation** to **provide information** to the sustainability assurance practitioner for independence evaluation purposes, let alone obtaining further information from subsequent tiers, which has not been defined, within the value chain.

This situation could also lead to a **lack of availability** in the market for clients who need **advisory** support with respect to their sustainability reporting needs. Large multinational audit and advisory networks that may well be best placed to provide large scale complex assurance services, may find themselves conflicted from providing assurance services further up in the value chain, where they provide advisory services to entities lower down in the value chain. In particular, for certain entities with a large number of value chain entities, such as large utility companies, the risk of future conflicts may be so high that it **distorts the competitive marketplace** for advisors.

The marketplace could be distorted even further where **local legislation** requires the same firm to perform both the financial statement audit and the sustainability assurance engagement, for example the draft *Treasury Laws Amendment Bill 2023* which is proposed to come into effect in Australia. In such a situation, a firm will be required to resign as financial statement auditor, if the firm is not in a position to perform the sustainability assurance engagement for clients. And the ability of the firm to perform the sustainability assurance engagement will be impacted by the implications of these independence requirements that are applicable to value chain entities.

With regards to section 5407, BDO believes that there is **insufficient clarity** in the current draft. Specifically, proposed section R5407.3 requires the practitioner's firm and members of the sustainability assurance team to be independent of a value chain entity if the **firm performs assurance work 'at' the value chain entity**. It is unclear whether this 'at' means when:

- i. the value chain entity is not a sustainability assurance client, but assurance work is performed on **subject matter information originated** by the value chain entity for which the sustainability assurance client is responsible, under the applicable reporting standard, **at the value chain entity's physical premises**, or
- ii. the value chain entity is not a sustainability assurance client, but the scope of the engagement includes **information originated by the value chain** entity and assurance work on that information is **performed digitally** by the practitioner, without necessarily visiting the value chain entity's premises.

The terminology supports the first interpretation, but the second interpretation seems more plausible.

Additionally, BDO thinks there is a lack of clarity in R5700.4 as to **how or when** a relationship with a value chain entity is relevant to a firm's independence from a sustainability assurance client. **Application material has not been provided** with factors to consider, possible safeguards etc.

Recommendation:

BDO believes a more appropriate approach would be to require the sustainability assurance practitioner to maintain independence from the party (or parties) responsible for the sustainability information under the applicable reporting standard, but **not from other parties**, equivalent to extant paragraph 900.11 A2 of the IESBA Code. When the responsible party uses information from a value chain entity in its sustainability reporting, the value chain entity's relationship to the sustainability assurance practitioner is **analogous to the relationship of management's expert**, as defined in ISA 500 paragraph 5(d), with the auditor of the client's financial statements. This relationship does not require the auditor to be independent from management's expert.

Question 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?

BDO disagrees, with the following additional comments:

As explained in BDO's response to question 13 above, BDO believes that **application material** with guidance is needed to help in determining **how or when** such interests or relationships with a value chain entity is relevant to the evaluation of the firm's independence from the client.

- (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?

BDO disagrees, with the following additional comments:

Whilst the approach taken in Section 5700 appears to be less onerous than the provisions of Section 5407, BDO calls for some **further clarity** in respect of the **specific actions** that are expected of firms when 'knowing' about relevant interests or relationships.

Providing NAS to Sustainability Assurance Clients

Question 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)?

BDO agrees that an **approach equivalent** to the independence standards for audit engagements must be taken with regards to sustainability assurance engagements and that providing NAS to a sustainability assurance client might create threats to compliance with the fundamental principles and to independence in particular.

BDO agrees that the **general** requirements and application material set out in Section 600 of Part 4A for audit engagements (such as the prohibition from assuming a management responsibility, the ‘self-review threat prohibition,’ and ‘communication with TCWG’) should also be applicable when the firm provides a NAS to a sustainability assurance client.

However, BDO questions whether the provision of the same types of NAS will impact the sustainability reporting on which the firm expresses an opinion. There are **different types of new NAS** which are tailored to assist clients with sustainability.

For example:

Under Subsection 5601 Sustainability data and Information Services **the impact** when providing accounting and bookkeeping services to an audit client **may be different** to the impact when providing sustainability data and information services to a sustainability assurance client.

A bookkeeping service is a process to assist the client with the day-to-day recording of the financial transactions and financial information pertaining to a business. It ensures that the accounting records for each individual financial transaction are correct, up-to-date and comprehensive. Accounting is the process of interpreting, classifying, analysing, summarising and reporting financial data collected during the bookkeeping stage, which involves judgement. Both bookkeeping and accounting services are well defined terms.

There is **no clear definition** of sustainability data and it is therefore difficult to fully understand what ‘*Sustainability Data and Information Services*’ refer to or cover, even with the examples given in 5601.3.A1.

Furthermore, under R5601.6 ‘*A firm or a network firm shall not provide sustainability data and information services that might affect the sustainability information on which the firm expresses an opinion to a sustainability assurance client that is a public interest entity.*’ It is not clear what is meant by ‘might affect’ and it is not easy to understand.

The above is only one example to illustrate the **difficulty to determine the exact scope** of the NAS that the proposed standard is referring to, in order to consider its potential impact on independence with regards to the sustainability assurance engagement.

For subsection 5603 Valuation, Forecasting and Similar Services, it is **too general** to use the term ‘**similar services**’ and this term may be subject to **different interpretations** by different parties (including the client, a PA, a Non PA and Regulators).

Sustainability Tax Services (subsection 5604) is a **new kind** of tax service, which may include services to assist clients to reach their sustainability goals, by designing tax frameworks and risk management methodologies to accelerate their transition, to decarbonise their supply chain, and to genuinely ‘green’ their business operations. However, the tax services covered under Subsection 5604 are the same as those related to audit and review engagements and it is difficult to link them directly to how they will affect independence with regards to sustainability assurance engagements.

Recommendation:

There should be guidance on the services offered by the practices of non-PA practitioners, as their service offerings could be very different from those offered by a PA practice.

Question 16

Subsections 5601 to 5610 address **specific types of NAS**.

- a) Do you agree with the **coverage** of such services and the provisions in the Subsections?

BDO disagrees, with the following additional comments:

The coverage of NASs under Part 4A was developed specifically with the provision of audit services in mind and exactly the same NASs have now been covered for sustainability assurance purposes. The **threats to independence cannot be assumed to be exactly the same** for both audit/review and sustainability assurance engagements. Section 5600 fails to cover **NASs which are specific to the sustainability industry**. In the market, there are different types of new NASs tailored to assist clients with sustainability, which may **not easily be mapped** to the traditional types of NAS currently included within proposed Section 5600.

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

BDO confirms that there are other NAS and adds the following comments

Services of professional accountants (and non-accountants) on sustainability may range from business planning, governance, reporting and assurance, to risk assessment and analysis.

As explained above, it is **difficult** for PAs and non PAs **to map** the services they provide with regards to sustainability to the traditional NASs which may impact the audit or review of financial statements.

Below are **examples of sustainability services** provided by networks, to illustrate how the nature and scope of some of the services are different from the traditional NASs:

- <https://www.bdo.global/en-gb/microsites/sustainability/services>
- [Climate change & sustainability services | EY - Global](#)
- [Environmental, social and governance \(ESG\) - KPMG Global](#)
- [Sustainability services | PwC Global](#)
- [Sustainability and Climate | Deloitte Global](#)

Recommendation:

It is suggested to **tailor the NASs under Section 5600** to ensure that both PAs and Non-PAs who perform sustainability assurance engagements can easily identify the potential independence threat/s from the provision of sustainability related NASs stated in Part 5 in an efficient and effective way, thereby minimising professional judgement needed. To focus on specific NASs that might impact independence with regards to sustainability assurance engagements, is also important considering the IESBAs objective that the application of Part 5 extends to Non-PAs, as they are not familiar with applying the provisions of Part 4A of the IESBA Code.

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)?

In general, **BDO agrees** that there are certain independence matters that will be present and need to be considered when a firm provides both the audit and the sustainability assurance services.

For **long association BDO also agrees** with the IESBA on all the proposed amendments.

For the independence matters related to the proportion of fees, **BDO agrees** with the IESBA that there are factors that may have an influence, since the sustainability assurance engagement is still

seen as a separate engagement in many jurisdictions. BDO however believes that there will not be any independence matters related to fees, when the same firm is both the financial statement and the sustainability auditor under proposed part 5.

Recommendation:

The concern that BDO has, is that a sustainability assurance engagement **isn't like any other assurance engagement**, both in the size of its fees and that it is recurring, as well as its close connection to the audit engagement. BDO believes that most clients will prefer to use their auditors to provide sustainability assurance. BDO therefore recommends that there **should not be any prohibitions, thresholds or fee caps**, and that the **sustainability assurance fees** should, in accordance with Part 5 of the IESBA Code, be considered **alongside the audit fees**, for purposes of the fee proportion calculations. This will also **align** with the recommended **renaming** of sustainability assurance engagements referred to in Part 5 to 'sustainability audit engagements' (as explained in our response to question 5 above).

Other Matters

Question 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?

BDO believes that the additional guidance from a sustainability assurance perspective is **sufficiently clear** for purposes of ensuring consistent high quality sustainability assurance engagements, irrespective of whether these engagements are carried out by a professional accountant or other independent assurance service providers.

Question 19

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

BDO would like to raise the following other matters for consideration:

Paragraph **5100.2b(b)** - If a **non-professional accountant** considers but **does not adhere** to the requirements in Parts 1 to 4B of the IESBA Code (since adherence is only encouraged, not required), BDO recommends that the nature of the non-adherence be **disclosed appropriately**, to facilitate an assessment of the impact of the non-adherence.

Paragraph **5100.7 A1** - In situations involving **cross-border engagements**, there could be jurisdictions with **less or more stringent requirements** than the requirements of the principal practitioner's jurisdiction. It would be beneficial to have some **guidance or illustrative examples** to explain the application of the '*more stringent provisions*' from the perspective of the principal practitioner.

Paragraph **5110.2 A3** - BDO believes it would be better to **require** (rather than encourage) the practitioner **to document** the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions, due to the **complexity** of the matter involved and the use of professional **judgement**.

Paragraph **5120.14 A1** - Should all quality management standards (for example ISO) be considered, or only standards that are **at least as demanding** as ISQM 1?

Paragraph **5360.5 A2** - The inclusion of additional examples such as human rights, consumer rights and labor conditions could result in application issues, due to **differing** interpretations and **values across jurisdictions**.

Paragraph 5360.18a - If the external auditors **explicitly inquire** from the sustainability assurance practitioner about any **known or suspected instances of non-compliance** with laws and regulations, as part of their procedures pursuant to ISA 250, would the sustainability assurance practitioner be **compelled** to respond to such formal inquiries?

Paragraph 5390.21 A1 - BDO believes that it would be better to **require** the sustainability assurance practitioner to **document** (rather than encourage) the matters contained in the bullet points in this paragraph.

PART B: Sustainability Reporting

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

Question 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?

BDO would like to raise the following for consideration:

It would be important to obtain representation of the **different types of preparers** of sustainability information into the strategic workstream, also taking into account the **size** of the organisations they prepare the information for.

IESBA could identify whether there are any **professional bodies** that sustainability reporting practitioners belong to and could reach out to them to form part of the strategic workstream.

The **benefit** of complying with the requirements contained in Part 5 of the IESBA Code, insofar it relates to acting in the **public interest**, would need to be explained and bought into by the workstream. In addition, the **practical implications** and **possible cost** of compliance with the requirements would need to be discussed and clearly understood by the strategic workstream members.

The IESBA could also consider facilitating a **survey** to obtain the views of users of sustainability information, to inform the **key focus areas** of the workstream.

Question 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?

BDO agrees that the proposed sustainability reporting-related revisions are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics:

Coherence - BDO agrees with adding only those considerations and examples that are necessary to make Parts 1 to 3 fit for sustainability reporting purposes. BDO also **agrees with integrating the texts** and not making it a standalone section/s.

Relevance, clarity and conciseness - With regards to relevance and clarity, refer to our recommendations made in question 22 below. With regards to conciseness, BDO agrees with integrating the texts within Parts 1 to 3 of the existing IESBA Code. BDO also believes that it is important for the IESBA Code to **remain principles-based**, for use on predominantly principles-based engagements.

Implementability and enforceability - In terms of enforceability, BDO foresees no issues or objections. In terms of implementability, BDO would like to again emphasise our **concern** relating to the proposed **independence requirements for value chain entities** (see question 13 above). If the proposed independence requirements are implemented, it will result in significantly increased costs to monitor compliance. BDO does not believe that this approach is in the public interest.

Question 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**?

BDO **disagrees**, with the following additional comments:

If the true intention with paragraph **220.3 A2** is for PAIBs to understand that the preparation or presentation of information relates not only to the state of an entity's financial affairs, but also to its operations i.e. its services or products, our suggestion would be that the **example be customised** to reflect information specific to an entity's operations. The broad example currently provided is: *'sustainability information, including information provided to the sustainability assurance practitioner'*.

Similarly, if the intention is for PAIBs to consider value chain entities in terms of the preparation or presentation of information under paragraph **220.3 A3**, our view is that **reference** should be made to the **broad remit of entities** that *'collecting, recording, measuring, maintaining and approving information'* under 220.3 A3 refers to.

Paragraph **220.11 A1** encourages the professional accountant to document various aspects in relation to the preparation or presentation of information. It is **not clear when** this documentation is suggested, is it when there is a self-interest threat that is required to be mitigated, or is it when a professional accountant uses his/her discretion in preparing or presenting information?

b) Proposed examples on **conduct to mislead** in sustainability reporting, value chain and forward-looking information?

The *'use of discretion in preparing or presenting information'* section (R220.5 to 220.6 A2) provides clear examples of ways in which discretion might be misused to achieve inappropriate outcomes, however this section **does not contemplate the relevant ethical considerations** when using discretion to prepare or present information.

Should this section contain a cross reference to another section/s in the IESBA Code? Furthermore BDO would recommend that any considerations under this section **be documented** under paragraph 220.11 A1, given the discretion involved.

c) Other proposed revisions?

BDO has no comments.

Proposed Revisions to the Extant Code

Question 23

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

Paragraph 5400.3a outlines when the standard would apply to an assurance engagement. Criteria (b) (ii) notes that it would apply when the information is *'publicly disclosed to support decision-making by investors or other stakeholders'*. It may be difficult to determine or unknown what the users use this information for, or could be unclear or open to debate.

Recommendation:

Narrow this criterion to be more definitive and not open to interpretation.

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?

BDO supports the IESBA's proposal **to align** with the effective date of ISSA 5000. Also refer to BDO's recommendations made under questions 1 and 5 above, with regards to the effective date.

BDO has no further comments.

We appreciate the opportunity to comment on the exposure draft. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited



Basile Dura
Secretary