



441 G St. N.W.
Washington, DC 20548

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

GAO's Response to the International Ethics Standards Board for Accountants' Exposure Draft, *International Ethics Standards for Sustainability Assurance (Including International Independence Standards)*, and Other Revisions to the Code Relating to Sustainability Assurance and Reporting, January 2024

Dear Mr. Siong:

This letter provides GAO's comments on the International Ethics Standards Board for Accountants' (IESBA) exposure draft, *International Ethics Standards for Sustainability Assurance (Including International Independence Standards)* (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the IESBA's efforts to develop ethics and independence standards for all sustainability assurance practitioners and to revise the IESBA's *Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) to address ethics issues that might arise in sustainability reporting.

We believe the standard should not be issued unless there is parity in the IESBA's ethics and independence requirements for both accountants and practitioners (nonprofessional accountants). We believe parity is essential to serve the public interest and help ensure the consistent performance of high-quality assurance engagements and other services. We have provided suggestions to clarify the Code and aid practitioners in understanding and consistently applying the ethics and independence standards, particularly the conceptual framework to independence for sustainability assurance.

The IESBA seeks comment on 23 specific questions. Our responses to the questions follow in the enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely,

A handwritten signature in black ink, appearing to read 'James R. Dalton'.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Enclosure

Responses to Questions on the International Ethics Standards Board for Accountants' Exposure Draft, *International Ethics Standards for Sustainability Assurance (Including International Independence Standards)*, and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

I. Sustainability Assurance

Main Objectives of the IESSA

1. Do you agree that the proposals in Chapter 1 of the Exposure Draft (ED) are:

(a) Equivalent to the ethics and independence standards for audit engagements in the extant Code?

We believe the standard should not be issued unless there is parity in the International Ethics Standards Board for Accountants' (IESBA) Code requirements for both accountants and practitioners (nonprofessional accountants). This will serve the public interest and help ensure that the information provided is trustworthy and supports the consistent performance of high-quality assurance engagements and other services.

For audit engagements, we generally agree that proposed chapter 1, sections 5100 through 5700, for ethics and independence standards for sustainability assurance engagements is generally equivalent to the extant code for audits and review engagements shown in the following: part 1, Complying with the Code, Fundamental Principles and Conceptual Framework; part 3, Professional Accountants in Public Practice; and part 4A, Independence for Audits and Review Engagements.

However, for practitioners who perform professional activities and have professional and business relationships (not covered by chapter 1), the proposal is not equivalent to the extant Code in part 4B, Independence for Assurance Engagements Other than Audit and Review Engagements. Part 4B sets independence requirements for professional accountants. The proposal does not have equivalent independence requirements for practitioners who are not professional accountants. Instead, the proposal states in section 5100.2b (b) that a practitioner (nonprofessional accountant) is *encouraged* (not required) to follow part 4B for professional activities not covered by chapter 1. Because of this difference, there is not parity between professional accountants and practitioners in the independence requirements.

(b) Profession-agnostic and framework-neutral?

The proposed independence standards appear to be written in a profession-agnostic and framework-neutral manner.

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 (PIF) qualitative characteristics?

We believe the proposal does not sufficiently address the enforceability of the Code on practitioners who are nonprofessional accountants. The consequences that practitioners who are nonprofessional

accountants will face if they do not comply with the proposed code of ethics or independence standards and the IESBA's mechanisms to enforce the Code with practitioners are unclear. Thus, the unequal enforceability of the Code by IESBA for professional accountants and practitioners does not appear to respond to considering the PIF's qualitative characteristics to serve the public's interest.

Definition of Sustainability Information

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

The proposed definition of “sustainability information” in the ED differs from the definition the International Auditing and Assurance Standards Board (IAASB) proposed in its exposure draft, Proposed International Standard on Sustainability Assurance 5000, *General Requirements for Sustainability Assurance Engagements and Proposed Conforming and Consequential Amendments to Other IAASB Standards*.

We believe that defining the same term differently in different standards may lead to inconsistent application, particularly for sustainability assurance practitioners who are not professional accountants.

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?

We believe there should be parity between the ethics standards for both professional accountants and practitioners who provide other services to the same assurance clients. Part 5 addresses sustainability assurance engagements that are attestation engagements but does not address direct engagements. We believe that part 5 should also provide ethics standards for direct engagements to help ensure public trust, as there may be practitioners that provide services for direct engagements.

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?

We agree with the proposed criteria in paragraph 5400.3a.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED?

We support including section 5270 of chapter 1 in the ED.

Non-Compliance with Laws and Regulations (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?

We believe it is reasonable to require a sustainability assurance provider and an external auditor to consider communicating (actual or suspected) noncompliance to each other. We believe that these

requirements may be more appropriate for a performance standard rather than in the Code, which consists of ethics and independence requirements.

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.)

We believe it is reasonable to require the senior professional accountant in business (PAIB) to determine whether to disclose (actual or suspected) noncompliance with laws and regulations to the employing organization's external auditor or sustainability assurance practitioner depending on the jurisdiction. We support expanding the scope of the extant requirement for PAIBs.

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?

We agree that an entity should be a public interest entity (PIE) for purposes of a sustainability assurance engagement if it has been determined to be a PIE for the purposes of the audit of its financial statements. In such cases, the independence requirements for PIEs in part 4A must be followed (ED paragraph 5400.13). We also agree that if a firm auditing an entity's financial statements decides to voluntarily treat the entity as a PIE, another firm performing a sustainability assurance engagement for that entity is not required to treat the entity as a PIE for the purpose of that engagement.

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.

(a) Do you support the *International Independence Standards* (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?

We support proposed part 5, section 5405, Group Sustainability Assurance Engagements, addressing group sustainability engagements.

(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)?

We agree with this approach.

(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?

We agree with the proposed requirement that the group engagement leader make a component sustainability assurance firm aware of the relevant ethics, including independence provisions that are applicable given the nature and circumstances of the engagement, to help the firm meet its responsibilities in the IIS in part 5.

(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”)?

We generally agree with the proposed defined terms in the context of group sustainability assurance engagements in the IIS in part 5.

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?

We believe that when a sustainability assurance practitioner intends to use the work of another practitioner who is not under the former’s direction and supervision, the provisions in section 5406, Another Practitioner Involved in a Sustainability Assurance Engagement for a Single Entity or Group, are reasonable.

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?

We are not providing a response to this 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?

We are not providing a response to this 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?

We are not providing a response to this question.

(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?

We are not providing a response to this question.

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 those charged with governance)?

We generally agree with the provisions in section 5600, Provision of Non-Assurance Services (NAS) to a Sustainability Assurance Client, which are based on the general requirements and application material in section 600, Provision of Non-Assurance Services to an Audit Client, of part 4A of the extant Code for audit engagements. However, we believe that the discussion of “materiality” in proposed paragraph 5600.11 A1 should relate to the significance of the non-assurance services provided in relation to the sustainability information for which the firm will express an opinion and not to the sustainability information itself.

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?

We agree with the coverage of specific types of non-assurance services (NAS) in subsections 5601 through 5610.

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

We are not providing a response to this question.

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)?

We generally agree with the proposed approach.

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?

Refer to our comments and suggestions on section 5390, Using the Work of an External Expert, that we provided in a separate response to the IESBA’s exposure draft, *Using the Work of an External Expert*.

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

We believe that the proposed Code should not be issued unless there is parity in the ethics and independence requirements for both accountants and practitioners. Ethics and independence requirements serve the public interest and help ensure that the information provided is trustworthy and supports the consistent performance of high-quality assurance engagements and other services. Generally accepted government auditing standards has consistent ethics and independence requirements for both performance auditors who audit subject matter information and financial statement auditors.

II. Sustainability Reporting

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

20. Do you have any views on how the IESBA could approach its new strategic work stream on expanding the scope of the Code to all preparers of sustainability information?

We believe the IESBA should address public concerns regarding its ability to enforce the Code on all users, not just professional accountants. We believe the proposal does not sufficiently address the enforceability of the Code on practitioners who are nonprofessional accountants. The consequences that practitioners who are nonprofessional accountants will face if they do not comply with the proposed code of ethics or independence standards and IESBA's mechanisms to enforce the code with such practitioners are unclear.

The unequal enforceability of the Code by IESBA on professional accountants and practitioners does not appear to serve the public's interest. We believe that the different levels of compliance with the independence standards in the Code for professional accountants and practitioners do not serve the public's interest.

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?

The PIF provides a set of qualitative characteristics used by boards to assess a standard's responsiveness to the public interest. There are several characteristics, listed below, that do not appear to be adequately addressed in the proposal.

- *Coherence* with the overall body of standards, including that requirements addressing the same subject matter are not in conflict.
- *Clarity* and *conciseness* to enhance understandability and minimize the likelihood of differing interpretations and thus support proper intended application and facilitate implementation.
- *Comprehensiveness* through limiting the extent to which there are exceptions to the established principles.
- *Implementability* and the ability to be *consistently applied and globally operable* across entities of all sizes and regions, respectively, as well as considerations of the different conditions prevalent in different jurisdictions.

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?

We agree that the proposed revisions to extant section 220, Preparation and Presentation of Information, are sufficiently clear and adequate from a sustainability reporting perspective.

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

We agree that the proposed examples on conduct to mislead in sustainability reporting, value chain, and forward-looking information in section 220 are sufficiently clear and adequate.

(c) Other proposed revisions?

We generally agree that the other proposed revisions are sufficiently clear and adequate.

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

We have no other comments concerning the proposals in Chapter 4.

III. 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 the IESBA's proposal to align the effective date of the final provisions with the effective date of ISSA 5000.