

08 May 2024

Mr. Ken Siong  
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International Federation of Accountants (IFAC)  
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**RE: 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"**

**Dear Colleagues**

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the effort of IESBA and welcomes this opportunity to comment on the IESBA 's Exposure Draft (ED), 1/ 2024, "*Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*".

SOCPA welcomes this opportunity to offer its comments on the 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". Our interest in these proposed revisions comes from SOCPA's continuous efforts to provide sufficient technical and ethical guidance to professional accountants (PAs) individuals and institutions. We believe that the IESBA's proposed revisions to the Code cover an area of significance which is globally attracting the interest of different stakeholders (e.g. governmental agencies, investors, creditors...etc.). Thus, we believe that the IESBA's effort in pursuing these proposed revisions to the Code comes in parallel with SOCPA's local initiatives to support the ethical behaviours of PAs in order to meet the stakeholders' heightened expectations and the entities' increased complexities; including the area of sustainability reporting.

However, SOCPA suggests certain enhancements to the proposed revisions, which are further explained in its responses to the questions in the appendix.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

**Dr. Ahmad Almeghames**

**SOCPA Chief Executive Office**



## Appendix

**SOCPA Comments on Exposure Draft (ED), 1/ 2024, " Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting".**

**International Ethics Standards Board for Accountants**

**Exposure Draft January 2024**

**Comments due: May 10, 2024**

### **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]**

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

#### **SOCPA Comments:**

(a) SOCPA agrees that the proposals in Chapter 1 of the ED are equivalent to the ethics and independence standards for audit engagements in the extant Code except for the exceptions made for part 2, which has not been included since it applies to PAs in business, who do not perform audits of financial statements, and this case would not have an equivalent in sustainability assurance.

(b) SOCPA agrees that the proposals in Chapter 1 of the ED are profession-agnostic and framework-neutral and intended to be understandable and applicable to all practitioners, including those who are not PAs. However, SOCPA believes using generic terminology across professions could lead to misinterpretations by practitioners with different backgrounds. The specific terms used in one profession could have a different meaning in another.

Additionally, a framework-neutral approach for ethics standards might not provide enough specific guidance for practitioners as each profession could have profession specific independence requirements as well. There could be instances in which these standards contradict ethics standards specific to another profession. A solution to this could be for the ethics standards to have a hierarchy to be included to address such situations.

#### **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]**

#### **SOCPA Comments:**

SOCPA believes the proposals in Chapter 1 of the ED seem to be responsive to the public interest, considering the Public Interest Framework's qualitative characteristics of coherence, clarity, and implementability / enforceability.

### *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]**

#### **SOCPA Comments:**

The IESBA's definition of "sustainability information" seems well-considered. It has clarity, comprehensiveness, flexibility and, more importantly, alignment with other existing frameworks.

SOCPA, however, believes it would be more informative if the second part of the definition which provides a non-exhaustive list additionally includes “described in the entity’s governance structure, board composition and mechanisms for promoting transparency and accountability” as a bullet point.

### *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]**

#### **SOCPA Comments:**

While SOCPA agrees with the proposal to adopt a middle ground option for the scope of the ethics standards in the International Ethics Standards for Sustainability Assurance (IESSA) which seem balanced, SOCPA wishes to highlight that adhering to ethics standards that cover a broad spectrum of services may pose challenges for practitioners operating in different jurisdictions with varying regulatory requirements. Ensuring compliance with diverse regulatory frameworks while maintaining consistency with international ethics standards could be demanding and resource-intensive.

- 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]**

#### **SOCPA Comments:**

Stakeholders (e.g. shareholders, lenders, suppliers, customers...etc.) place increasing importance on sustainability related information. SOCPA therefore believes targeting engagements with publicly disclosed information used by investors and other stakeholders is important as this would be aligned with the principle of prioritizing public trust. The exposure draft 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. SOCPA suggests that this be extended to all sustainability assurance engagements as any sustainability information that has been audited would invariably have some exposure to stakeholders, and excluding engagements solely based on framework used (e.g., specific user vs general purpose) or disclosure limitations (restricted reports) might be overly restrictive.

*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]**

**SOCPA Comments:**

SOCPA supports inclusion of section 5270, however, wishes to highlight that evaluating pressure threats and determining appropriate responses may involve subjective judgment, which could lead to inconsistencies in interpretation and application among practitioners. This subjectivity may introduce challenges in achieving uniformity and consistency in ethical decision-making across the profession.

Additionally, the specific examples of pressure provided in Section 5270 may also not be exhaustive. There is a risk that practitioners might misinterpret the section and fail to recognize other forms of pressure they might encounter.

**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]**

**SOCPA Comments:**

SOCPA agrees with the provisions added to the sections referred above for the auditor and the sustainability assurance practitioner to consider communicating actual or suspected NOCLAR. However, SOCPA believes there is a lack of clarity regarding materiality in the above referred sections. The absence of a requirement to consider the likely materiality of the NOCLAR to the audit of the client's financial statements for sustainability assurance practitioners who are not professional accountants may lead to uncertainty or inconsistency in decision-making. Non-PA practitioners may struggle to assess the financial materiality of NOCLAR without expertise in financial reporting. Therefore, SOCPA believes some form of guidance for non-PA practitioners to apply in such scenarios should be included as well.

SOCPA also believes the decision not to extend communication requirements to other sustainability assurance practitioners performing engagements for the same client may result in incomplete information sharing. While the exposure draft assumes that usually an entity engages one sustainability assurance practitioner, there could be instances when a group of companies engages more than one sustainability assurance practitioner. The limited scope in the exposure draft may hinder the effectiveness of NOCLAR detection and response efforts, in engagements involving multiple practitioners.

- 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]**

**SOCPA Comments:**

SOCPA supports this suggestion as we believe expanding the scope of the requirement for Professional Accountants in Business (PAIB) to disclose actual or suspected NOCLAR to the

employing organization's external auditor or sustainability assurance practitioner can be seen as a step towards enhancing accountability and transparency in corporate reporting.

### *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]**

#### **SCOPA Comments:**

SOCPA agrees with the proposal to use the determination of a Public Interest Entity for the purposes of the audit of the entity's financial statements in sustainability assurance engagements.

However, if an auditor voluntarily decides whether to treat an entity as a PIE for the audit of its financial statements, particularly when the entity doesn't meet the definition of a PIE, SOCPA suggests that this determination should apply consistently across both the audit and sustainability assurance engagements. This approach ensures coherence and consistency in treatment across different engagements.

### *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?**

- (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")?**

#### **SCOPA Comments:**

- (a) SOCPA believes addressing group sustainability assurance engagements in the IIS in Part 5 could enhance clarity and consistency in applying independence requirements across various assurance engagements. However, practical challenges may arise in implementing proposed Section 5405, particularly regarding communication and coordination between group**

sustainability assurance firms and component sustainability assurance firms. These challenges might include ensuring effective communication of relevant ethics and independence provisions, as well as coordinating assurance work across different entities within a group. This should be considered in line with the fact that non-PA practitioners who might be part of the components sustainability assurance practitioners might be subject to other professional code of ethics and assurance frameworks which might have not been designed to be applied in accordance with the IESBA's Code.

(b)

- i. Supporting the equivalence of independence provisions applicable to group sustainability assurance engagements to those for group audit engagements can promote consistency and credibility in assurance practices. However, achieving this equivalence may pose challenges due to the unique nature of sustainability information and assurance engagements compared to financial audits. Ensuring that the independence requirements adequately address the specificities of sustainability reporting and assurance will be crucial.
- ii. SOCPA agrees with the proposed requirements regarding communication between group sustainability assurance firms and component sustainability assurance firms which is essential for ensuring alignment and coordination in independence considerations. However, implementing these requirements effectively may require establishing clear communication channels, defining responsibilities, and addressing potential barriers to information sharing. For example, the group engagement leader shall take responsibility to make a component sustainability assurance firm aware of the relevant ethics, including independence, provisions. The group sustainability assurance firm shall communicate at appropriate times the necessary information to enable the component sustainability assurance firm to meet its responsibilities under this section. Implementing these requirements could be challenging.
- iii. While aligning terms and definitions with those used in group audit engagements can promote consistency and clarity, it may also create confusion for non-professional accountants. This would be a significant challenge. It is understood that education and training of non-PAs would be a solution; however, it would be essential the IESBA and other national regulators take a lead on this consciously.

### *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]**

#### **SOCPA Comments:**

SOCPA agrees with the proposed independence provisions set out in Section 5406. However, it would like to highlight the following concerns:

- Section 5406.1 of the exposure draft implies that the other practitioner may not be subject to the same independence standards. While it does not explicitly state this, the section highlights

the firm's inability to directly control the other practitioner's work if it is already completed, which suggests the possibility that the other practitioner follows different standards (or no standards at all). SOCPA believes the Code should be strengthened to address such situations as well.

- Based on the facts in section R5406.4, the firm relies solely on a confirmation from the other practitioner stating their adherence to the Code's ethics and independence provisions. This confirmation might not be a foolproof guarantee. Therefore, SOCPA believes the Code should add a responsibility on the other practitioner to ensure the confirmation given can be relied upon by the firm.

*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]**

**SOCPA Comments:**

SOCPA believes the definition relies on the specific sustainability reporting framework, which can vary. This might lead to inconsistencies in how different firms define and assess the value chain for assurance purposes which would be of significant concern. Therefore, SOCPA believes the definition should be made more generic to ensure no matter which framework is followed, the concept of “value chain” stays the same.

**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]**

**SOCPA Comments:**

SOCPA agrees with the provisions in Section 5407 as it provides guidance on the independence considerations when assurance work is performed at, or with respect to, a value chain entity in the context of sustainability assurance engagement.

**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?**
- (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]**

**SOCPA Comments:**

- (a) SOCPA agrees that certain interests, relationships, or circumstances between the firm, a network firm, or the sustainability assurance team, and a value chain entity can create threats to the firm's independence. This is because even though another practitioner performs the assurance work on the value chain entity, the firm expressing the final opinion on the client's sustainability information holds ultimate responsibility. This creates a situation where a compromised relationship with a value chain entity could influence the firm's overall judgment.
- (b) SOCPA supports the use of the "knows or has reason to believe" principle outlined in Section 5700 (paragraph R5700.4). This established principle avoids placing an unreasonable monitoring burden on the firm. However, Section 5700 might benefit from additional guidance. While the reliance on the general conceptual framework (Section 5120) is sound, providing specific examples of factors to consider when evaluating threats and potential safeguards would be helpful.

#### *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]**

#### **SOCPA Comments:**

SOCPA agrees with the proposed provisions in Section 5600 of the exposure draft; however, the documentation requirements in paragraph R5600.28 which are necessary could be enhanced by introducing specific examples.

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

#### **SOCPA Comments:**

- (a) SOCPA agrees that the coverage of specific types of NAS in the proposed subsections is generally comprehensive and addresses several potential areas of conflict in terms of sustainability assurance engagements. The focus on evaluating and addressing any threats created by the provision of these services ensures that the sustainability assurance engagements remain independent and objective.
- (b) SOCPA believes one area that may warrant further consideration is in relation to emerging sustainability technologies such as artificial intelligence (AI), machine learning (ML), or big data analytics services. As these technologies become more integrated into sustainability data analysis and reporting, specific guidance on the independence of services related to these advanced technologies would be beneficial. For example, providing AI-driven data analysis or

ML-based forecasting could introduce biases or conflict of interests if the firm is involved in the creation, training or evaluation of these systems as well.

***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]**

**SOCPA Comments:**

SOCPA agrees with 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.

However, the factors to be considered given in Section 410, that are relevant in evaluating the level of the self-interest threat that might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, is looked at from a single entity perspective. SOCPA believes the evaluation should be extended to a group entity perspective in order to ensure that the substance of the proposed approach is not lost. There could be situations in which a firm or network firms provide audit services to several entities in a group of companies and sustainability assurance to several other companies in the group. If the proposed approach does not address such scenarios, the independence rules could be exploited.

***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?**

**SOCPA Comments:**

SOCPA believes that the additional guidance from a sustainability assurance perspective in Chapter 1 of the ED is adequate and clear.

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

**SOCPA Comments:**

SOCPA has no comments relating to other matters in Chapters 1 to 3 of the ED.

*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]**

**SOCPA Comments:**

SOCPA believes IESBA should develop a clear definition of who would be considered a "preparer" of sustainability information for the purposes of the Code. This definition would need to be broad enough to capture all those who are responsible for the preparation and reporting of sustainability information but narrow enough to be workable and enforceable.

- 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]**

**SOCPA Comments:**

While the revisions aim to enhance clarity and conciseness, SOCPA believes there may still be challenges in ensuring that the standards are accessible to all stakeholders, particularly those outside of the accounting profession. Providing additional guidance or explanatory materials would be compulsory to help address this issue and improve understanding of the ethical considerations surrounding sustainability reporting.

*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]**
- (b) **Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]**
- (c) **Other proposed revisions? [See paragraph 155 of this document]**

**SOCPA Comments:**

- (a) SOCPA has concerns regarding clarity and coverage. While the proposed revisions include examples on conduct to mislead in sustainability reporting, value chain considerations and forward-looking information, it's not explicitly stated how these examples will effectively address the unique ethical dilemmas posed by sustainability reporting. For instance, while the proposed revisions emphasize the importance of exercising professional judgment in preparing or presenting sustainability information (Paragraph 220.4), they do not provide clear guidance on how to navigate the complexities of sustainability reporting frameworks.
- (b) The proposed examples aim to illustrate how sustainability information might be intentionally prepared or presented to mislead others, or how pressure exerted on professional accountants might result in breaches of compliance with fundamental principles. However, SOCPA believes while these examples provide valuable insights, there are concerns regarding their applicability and practicality. For instance, the proposed examples

may be overly complex or difficult to apply in practice, particularly for professional accountants without extensive experience in sustainability reporting.

- (c) The proposed revisions include additional examples and concepts aimed at enhancing the ethical framework for sustainability reporting. While these revisions aim to address emerging issues in sustainability reporting, SOCPA has concerns regarding integration, clarity and relevance. For instance, while the proposed revisions aim to enhance clarity and relevance for professional accountants, they do not provide specific examples of how they will achieve these objectives. Without clear guidance and practical relevance, the proposed revisions may have limited utility in practice.

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

**SOCPA Comments:**

SOCPA has no other matters to raise relating to the proposals in Chapter 4 of the ED

*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?**

**SOCPA Comments:**

SOCPA agrees with 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.