

Comments on recent International Ethics Standards Board for Accountants Exposure Drafts regarding sustainability assurance and the use of external experts

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Abstract

We commend the International Ethics Standards Board for Accountants for the initiative in releasing the two related Exposure Drafts regarding sustainability assurance and the use of external experts. There is a need for assurance over sustainability information, and for that assurance to be provided by professional people who have the appropriate guidance on ethical issues. There is an increasing need to draw on the work of experts and an increasing possibility that inappropriate reliance on that work by professional accountants and sustainability assurance practitioners may threaten compliance with the fundamental principles of the code of ethics.

KEYWORDS

assurance, audit, ethics, profession-agnostic, sustainability

JEL CLASSIFICATION

M42, M48, Q01

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The Auditing and Assurance Standards Committee of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) is pleased to provide its comments on the International Ethics Standards Board for Accountants' Exposure Drafts (EDs) on the proposed standards. AFAANZ is the peak regional academic accounting and finance association and counts among its membership the region's leading and emerging accounting and finance researchers. The Auditing and Assurance Standards Committee is an ad-hoc committee under the governance of AFAANZ's Auditing and Assurance Special Interest Group, formed to give a voice on standard-setting deliberations to the academic research literature.

In this paper, we present our submission on these two Exposure Drafts. We present an overview of our comments in this introduction.

We first comment on the International Ethics Standards Board for Accountants' (IESBA's) Exposure Draft of Proposed International Ethics Standards for Sustainability Assurance. There are important issues regarding the extent to which a code of ethics that is based on the existing code for accountants can be profession-agnostic. We are also concerned that IESBA has already set an effective date for the standard to be approved and for the proposals to come into effect. We would prefer taking more time, if necessary, to avoid unintended consequences. We recommend that where a sustainability assurance practitioner, or a senior professional accountant in business, is aware of non-compliance with laws and regulations (NOCLAR), there should be a requirement to disclose it to multiple sustainability practitioners where these exist. We have made comments about the disclosure of fees for sustainability services (question 17), because we consider that the mechanism for disclosure is not currently made clear in the Exposure Draft.

We then report our comments on IESBA's Exposure Draft on Using the Work of an External Expert. We begin by commending the IESBA for their work on revising the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) as it relates to the use of external experts by professional accountants (PAs) and sustainability assurance practitioners (SAPs). Given the increasing breadth of PA's and SAP's work, there is an increasing need to draw on the work of experts (e.g., Boritz et al., 2020) and an increasing possibility that inappropriate reliance on that work by the PA or SAP may threaten the PA's or SAP's compliance with the fundamental principles of the Code. Appropriate evaluation of the work of the external expert helps to minimise that threat. Overall, we believe that the proposals, when considered collectively, will enhance the PA's and SAP's evaluation of an external expert's work, but that there remain opportunities for the IESBA to make further improvements to the Code in this area. We limit our comments to the questions for which we are of the view that the extant research literature may meaningfully contribute. Specifically, we comment on Questions 1, 2 and 4. In summary, we feel that the IESBA:

- a. should retain reference to experience when speaking of expertise (see our response to Question 1),
- b. should cross-reference discussions on evaluating the external expert's competence, capabilities and objectivity to material in the Code on threats to compliance with fundamental principles from conscious and unconscious bias (see our response to Question 2), and
- c. clarify the expectations as they relate to the evaluation of an external expert's objectivity for audit and other assurance engagements (see our response to Question 3),

We provide our responses to the specific comments in the Exposure Drafts below.

SUBMISSION 1: Proposed International Ethics Standards for Sustainability Assurance

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?

Response:

- a. Yes. The proposed standards are generally equivalent to the extant Code.
- b. No.

There are limits to the extent to which it is profession-agnostic, largely because it is equivalent to the extant Code, which accountants are familiar with and other professions are not.

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?

Response:

No comment.

Definition of sustainability information

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

Response:

Yes, with comments.

In principle, we support the definition of 'sustainability information' in Chapter 2 of the ED. Paragraph (a) provides a broad definition to assist in identifying which information is relevant and therefore subject to reporting requirements with paragraph (b) referring to other rules and regulations that may impact the definition of 'sustainability information'. In the case of paragraph (b), using IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information as one example, there is a need to ensure that the definition and language ultimately used is 'future-proof' given further changes to the sustainability landscape that will occur.¹ IFRS S1 focuses on the reporting and disclosure of financial risks arising from sustainability actions and predominantly suits investors. As such, the eventual definition of 'sustainability information' has to be necessarily broader to suit the informational needs of a widely varied set of stakeholders.

We also find that the non-exhaustive examples in italics below para. (b) useful in assisting users in identifying the existence of 'sustainability information'. We would suggest that the IESBA consider the suitability of incorporating the following matters into its deliberations around 'sustainability information':

¹One such example that comes to mind is future reporting and disclosure requirements in relation to modern slavery.

1. There is no explicit requirement for reporters to report on the actual consumption of sustainability resources annually; and
2. There is no explicit requirement for reporters to report whether the consumption of sustainability resources annually is sustainable.

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?

Response:

Yes.

We support the IESBA's proposal 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 (i.e., the middle approach).

Given that the ethics standards referred to are heavily borrowed from the International Code of Ethics for Professional Accountants (including Independence Standards) issued by the Ethics Board, and apply to accountants, including those involved in the provision of assurance engagements over the financial reporting process, we refer to the literature from the financial reporting domain to support our view above. In the financial reporting domain, there are ethical rules that apply to incumbent auditors seeking to also provide non-audit services (NAS) and these rules are in place to maintain the integrity and quality of the external audit function and resulting audit opinion.

Research within the financial reporting domain indicates that, left alone, financial reporting auditors do not suffer any negative consequences when they provide NAS and there are NAS failures resulting. Such research indicates that, without regulatory intervention in the form of standards, auditors will act opportunistically for their own benefit (Friedrich & Quick, 2024). Other complementary research suggests that the capital market imposes additional costs (in the forms of higher equity and debt capital costs) on companies which purchase NAS from their existing auditors, suggesting that the market views the joint provision of auditing and NAS as detrimental (Friedrich et al., 2024).

Although there is academic literature that reports a positive association between NAS and audit quality (suggesting a knowledge spillover argument), there are also numerous other findings which report a negative association between NAS and audit quality (suggesting an economic bonding argument). It is necessary to understand that many of these findings are context-specific depending on other factors such as the strength of investor protection regimes, culture, country-level institutional environments, etc. (Mustikarini & Adhariani, 2022). As such, in the interest of adopting a conservative approach to the provision of other services provided to the same sustainability assurance clients, and substantial literature suggesting the detrimental effects from the joint provision of auditing and NAS, it would be beneficial to develop standards that would regulate all these other services.

In summary, applying findings from the financial reporting and assurance domain to sustainability assurance engagements and adopting a careful approach, we believe that it is appropriate that ethical standards be in place and particularly apply to all other services provided to the same sustainability assurance clients.

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?

Response:

Yes.

Structure of Part 5

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

Response:

Yes, with comments.

Section 5270 sets out that a sustainability assurance practitioner shall not allow pressure from others to result in a breach of compliance with the fundamental principles, and shall not place similar pressure on others. It gives examples of such pressure. It suggests that a sustainability assurance practitioner should discuss the matter with the person exerting pressure, and with the practitioner's superior, and escalate the matter within the firm if necessary. The facts, communications, action considered and how the matter was addressed should be documented.

There is relevant research on the issue of pressures to breach fundamental principles (Neesham & Azim, 2017). That study examined the ethical accountability needs of accounting professionals in Australia. The authors obtained 162 questionnaire responses and conducted 76 interviews.

The major sources of ethical conflict identified were pressure from the client, conflicts of interest and pressure from employers (in that order). The respondents had considerable confidence in confidential counselling from their professional accounting bodies and from peer support on a confidential basis from accounting peers. They also commented on the need for their employer to have high ethical standards and appropriate tone from the top (Neesham & Azim, 2017).

The proposed standard already makes reference to confidential consulting with professional bodies. We believe this section (5270.3 A4) should be expanded to make it clear that a sustainability assurance practitioner can expect to be able to get confidential support from their professional body, or from other colleagues where necessary. The research also shows the importance of employer organisations having an appropriate firm culture.

We support the inclusion of Section 5270 and suggest that it should be expanded.

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?

Response:

Yes, but there is a need to extend the provisions to accommodate the potential communication of suspected or actual non-compliance with laws and regulations (NOCLAR) with all assurance practitioners.

We support the added provisions requiring the auditor and assurance practitioner to consider communicating actual and suspected NOCLAR with each other. Actual or suspected NOCLAR threatens the professional accountant's and sustainability assurance practitioner's compliance with the fundamental principles of integrity and professional behaviour and knowledge of such instances helps a professional accountant or sustainability assurance practitioner respond appropriately.

Research on the drivers/causes of organisational misconduct (see, for example, Greve et al., 2010 and Paruchuri et al., 2024 for reviews) highlight the potential for individual instances of NOCLAR to be indicative of wider issues within the organisation. Communication of actual or suspected NOCLAR to the auditor/assurance practitioner facilitates their consideration of the implications thereof on their ability to comply with the fundamental principles of integrity and professional behaviour.

We are concerned, however, that such a requirement is not being extended to other sustainability assurance practitioners. We believe that knowledge of actual or suspected NOCLAR is just as relevant for other assurance practitioners in meeting requirements with reference to the fundamental principles of integrity and professional behaviour as it is for auditors. In this regard, Bouzzine and Lueg (2023) highlights the relationship between past and future behaviour in the CSR domain. Seele and Gatti (2017) highlight potential differences in the interpretation of seemingly misleading CSR information, and Dialogic Accounting Theory (e.g., Manetti et al., 2021) highlights the breadth with which corporate reporting can interact with stakeholder interests. Actual or suspected NOCLAR can have far-reaching implications beyond the site of the identified instance. Being aware of actual or suspected NOCLAR assists all sustainability assurance practitioners address idiosyncratic implications for their ethical conduct. We encourage the IESBA to extend paragraph R5360.18a to require consideration of whether to communicate actual or suspected NOCLAR to other sustainability practitioners.

While we acknowledge IESBA's reasons for not extending the requirements to other sustainability assurance practitioners (as outlined in paragraph 60 of the Explanatory Memorandum), we are of the view that the infrequency with which a company may engage more than one sustainability assurance practitioner is insufficient justification for not addressing that circumstance. Enquiries with academic colleagues investigating the sustainability assurance market reveal that there are instances, albeit rare, of companies engaging multiple sustainability assurers. Moreover, as the breadth of sustainability information being reported on expands, and assurance is demanded/required on that information, the required subject matter expertise may mean that instances of multiple assurance practitioners will become more common. We believe it to be in the public interest for assurance practitioners to consider whether to communicate actual or suspected NOCLAR with other sustainability assurance practitioners of the client.

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)

Response:

Yes, but there is a need to extend the provisions to accommodate the potential communication of actual or suspected NOCLAR to all assurance practitioners.

In response to Question 7, we noted research highlighting the interrelated/interconnected nature of actual or suspected NOCLAR across the entire organisation (e.g., Bouzzine & Lueg, 2023; Greve et al., 2010; Manetti et al., 2021; Paruchuri et al., 2024; Seele & Gatti, 2017). It is important for the organisation's external auditor or sustainability assurance practitioner performing a sustainability assurance engagement to be aware of actual or suspected NOCLAR so as to facilitate their compliance with the fundamental principles of integrity and professional behaviour. We believe, therefore, that it is appropriate for the senior professional accountant in business to consider if disclosure of suspected or actual NOCLAR is required to the employing organisation's external auditor or sustainability assurance practitioner.

Proposed paragraph R260.15, however, seems to envisage a single sustainability assurance practitioner, and as we note in our response to Question 7, while this is the most common situation, instances of more than one sustainability assurance practitioner do occur and may

become more common in the future. We encourage the IESBA to acknowledge the potential need for the senior professional accountant to consider disclosure to multiple sustainability assurance practitioner(s) rather than a single practitioner (within the confines and considerations outlined in this section).

We further note that proposed paragraph R3560.33 envisages a single sustainability assurance practitioner in that it only requires consideration of the need for the sustainability assurance practitioner to communicate actual or suspected NOCLAR with the client's external auditor. Enquiries with academic colleagues investigating the sustainability assurance market reveal that instances of multiple sustainability assurance practitioners are rare but do arise. Given the increased breadth of this section (i.e., to sustainability assurance engagements not within the scope of the International Independence Standards (ISS)), we believe that the likelihood of this occurring would be higher. We encourage the IESBA to extend proposed paragraph R5360.33 to require the practitioner to consider the need for communication with any other of the client's sustainability assurance practitioners (if any).

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?

Response:

Yes with comments.

We agree that the guidelines that establish classification of an entity as a public interest entity (PIE) for financial statement audits are also applicable here. We recommend recognising the difference between an entity being a PIE for purposes of financial statement audits and the actual CSR disclosure itself being of public interest. Drawing upon legitimacy theories (Duff, 2017), the public interest implications of the CSR disclosure in themselves need to be considered separately (Sheehy, 2015) from the notion of an entity itself being deemed a PIE for financial statement audits. An entity that is deemed to be a PIE for financial statement audit may not have CSR activities (and related disclosures) that are of public interest (see Huang, 2021). Drawing upon signalling theory, if an entity is deemed a PIE, then their CSR disclosures are of public interest to the extent that it informs investors' interpretation of financial disclosures as well (Huang, 2022).

While we support the proposal, we observe that some entities that have a substantial effect on the environment but that are small financially are not included.

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 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')?

Response:

General comment:

- a. Yes, with comments.

We support including group engagements. Otherwise, artificial corporate structures can reduce the effectiveness of reporting and assurance.

Dialogic accounting theory (Manetti et al., 2021) suggests that financial and non-financial aspects of the annual report are interpreted collectively by interested stakeholders. In other words, there is an intersection of information contained in financial statements with the information contained in statements that contain CSR disclosures. From an assurance standpoint, the auditor is responsible for the entire audit: the financial and non-financial information, the work that is completed by them and the work that is completed by an 'other' which, although it may fall outside the audit team itself, still becomes an integral part of the financial statement audit whether directly or indirectly. In other words, auditors are fully accountable for the entire audit, including the work of others, and the impact this may have on stakeholders (Dillard & Vinnari, 2019; Yates, 2020).

Drawing upon the implications of the revised ISA 600 (see Coram et al., 2021), some of the recommendations made by AFAANZ in that submission are potentially useful to IESBA. In particular, we recommend that auditors are ultimately responsible for the conclusions drawn from the work of others, which in a group setting includes the work of component auditors, and in the case of IESBA, it would also include the work of sustainability practitioners. Further, the responsibility of the auditor should not be diminished due to the work being completed by an 'other' that falls outside of the group engagement, as the auditor is fully responsible for the group audit opinion.

- b. As a result, we agree that independence requirements should also apply to a group and with the proposed provisions, requirements and terms.

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?

Response:

Yes, but there is a need to clarify the distinction between 'assurance work' and 'work used in an assurance engagement'.

We concur with the proposed independence provisions set out in Section 5406. Independence is a fundamental component of audit (and assurance) quality (e.g., DeAngelo, 1981). The quality of an assurance engagement, and the ability of sustainability assurance practitioners to comply with the fundamental principles of ethics depends as much on the work that the assurance practitioner relies on as it does on the assurance practitioner's work undertaken themselves.

We are, however, concerned with the lack of clarity between proposed Section 5406 and proposed Section 5390. Specifically, we are concerned with the distinction between ‘assurance work’ when independence is the standard required in Section 5406 and ‘work used in an assurance engagement’ when objectivity is the standard required in Section 5390. Although ‘Another Practitioner’ is defined, assurance work is not defined. Independence is a complex construct (e.g., Church et al., 2015; Gramling et al., 2010; Tepalagul & Lin, 2015) and it is likely to be even more complex when considered in light of the range of different expertise and relationships with the client (e.g., Boritz et al., 2020). Where possible, potential confusion should be minimised.

We encourage the IESBA to clearly distinguish between what is meant by ‘assurance work’ and ‘work used in an assurance engagement’ so as to identify any unintended consequences or difficulties in applying the new provisions (e.g., can an assurance practitioner clearly specify when work contributes to an assurance engagement as either assurance work or work used in an assurance engagement?). At a minimum, we believe that it would be appropriate for the IESBA to define ‘assurance work’. We further note that the term ‘assurance work’ appears in Section 900, and any clarity of the term should also be consistent with the intentions of that section.

We further refer the IESBA to our response to the ‘Using the Work of an External Expert’ Exposure Draft where we raise concerns as to the purpose of additional rigour in Paragraph R390.8 in terms of assessing objectivity.

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?

Response:

Yes, with comments.

We agree with ‘value chain’ as a reporting concept and accept that its definition can vary across existing reporting frameworks. However, we have reservations about the proposed definition allowing scope for firms and/or sustainability assurance practitioners to decide what is the ‘applicable reporting framework’ in the context of sustainability assurance engagements. We would consequently expect the reporting of value chain sustainability information in accordance with the self-interests of reporters (which may be unsuitable to the informational needs of stakeholders).

Currently, the proposed definition does not help assess the applicability of the definition. According to IFRS S1, ‘A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity’s operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates’. The term ‘value chain entity’ used in the ED is somewhat consistent with the GHG (Greenhouse Gas) Protocol, which defines ‘value chain’ as ‘all the activities that are associated with the operations of the reporting company, both upstream and downstream including the use of sold products by consumers and the end-of-life treatment of sold products after consumer use’.

The current ED indicates that the value chain entity may consist of suppliers or customers. However, in the upstream value chain, there will likely also be direct and indirect suppliers, defined as Tier 1 and Tier 2 suppliers in the GHG Protocol. Tier 1 suppliers are companies that provide or sell products directly to the reporting company, while Tier 2 suppliers are the ones that provide or sell products directly to the reporting company’s Tier 1 supplier. For instance,

in the case of reporting modern slavery, a company's Tier 1 supplier may not include child labour. However, the Tier 2 supplier potentially could have child labour involved in the supply chain, resulting in child labour to the reporting company. Given the nature and complexities among value chain entities, greater consideration is required when defining all the potential entities comprising the value chain.

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?

Response:

Yes, with comments.

If the firm performs the assurance work at a value chain entity, R5407.3 (EM para. 108) requires that the firm and the member of the sustainability team be independent of the value chain entity, the sustainability assurance client and its relevant related entities. Part of the sustainability information can be within the reporting boundary of both the value chain entity and the sustainability assurance client. It suggests such overlapping information is related to at least two clients when the firm performs the assurance work at a value chain entity. Even though the firm is independent of each of the sustainability assurance client and relevant value chain entities, the firm may be exposed to greater self-interest threats and greater pressures to support clients' preferences (Church et al., 2015) and exercise reduced professional scepticism (Hurt et al., 2013), especially when the sustainability assurance client and relevant value chain entity have similar preferences of reporting.

There is also a concern with high fee dependency from the sustainability assurance client and its value chain entities as a whole. When sustainability information of a value chain entity is within the reported boundary of the sustainability assurance client, independence can be threatened when a large proportion of assurance income is associated with clients in the same value chain because it provides the firm with greater economic incentives to accept the preferences of clients (including those of the sustainability assurance clients and value chain entities) in order to retain the clients (Church et al., 2015; Hay, 2017). We suggest the firm assess the independence of the value chain of a sustainability assurance client as a whole when (1) they perform the assurance work at the value chain entity and (2) the sustainability information of the value chain entity is within the reporting boundary of the sustainability assurance.

We support the provisions in Section 5407 addressing independence when a firm uses the work of a sustainability assurance practitioner at a value chain entity and when a firm does not carry out assurance work at the value chain entity. We suggest extending the R5407.4 and R5407.6 to make it clear that the firm shall comply with Section 5700 in addition to those provisions in Section 5407.

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?

Response:

a. Yes.

We agree that certain interests, relationships or circumstances between the firm and a value chain entity might create threats to the firm's independence.

b. Yes, with comments.

The 'knows or has reason to believe' principle in Section 5700 may lead to an assumption of no threat to independence of a value chain entity in the first place and if they are aware of their interests, relationships or circumstances associated with the value chain entity, only then does the firm expend effort to identify, evaluate and address potential threats of independence of a value chain entity. If auditors assume no material misstatement of an account in the first place and conduct tests only after they are aware of threats, they are more likely to fail to detect material misstatements (Chen & Leitch, 1999).

We suggest Part 5 provides guidance on how firms can proactively identify the threat to the firm's independence of a value chain entity and ensure that threats are at an acceptable level. For example, the firm shall determine whether there is any threat to independence in accordance with Part 4 (R400.31) and shall document conclusions with relevant supporting discussions (R400.60). We believe this approach is better than the 'knows or has reason to believe' principle and thereby alleviates the concerns that the firm does not exercise sufficient efforts to identify the threat to independence of a value chain entity. Such threats include conflicts of interests, family and personal relationships, employment, long association and financial interests.

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 (TCWG))?

Response:

Agree.

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

Response:

- a. We agree.
- b. We do not propose further services to be added to the list,

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)?

Response:

Yes, with comments.

The proposed approach is that fees for sustainability services should be disclosed by the firm (i.e., the sustainability assurance practitioner) in addition to audit fees (EM para. 125). The firm should also consider applying safeguards regarding the proportion of non-audit to audit fees (para. 125). The EM also states that the auditor might conclude that the level of threats is at an acceptable level, even when the sustainability assurance service generates a large proportion of fees relative to the audit fees.

We agree that fees should be disclosed, that safeguards need to be taken into account, and that a cap on fees is not appropriate. More details and supporting references are provided below. However, we have reservations. Specifically, it is not clear what form the disclosure of fees is intended to take. Is it expected that each practitioner should publish a report providing this information for each client? Or is the reporting intended to be for each firm as a whole? How are these reports to be made available? In the latest transparency reports published by Big 4 firms in Australia, none of them have separately disclosed revenue received from sustainability assurance or reported their revenue at a client level. The sustainability assurance revenue can be aggregated into the amount of revenue from 'other assurance and non-audit services to audit clients'. More guidance and regulations are required with respect to disclosures of sustainability assurance fees.

It is also important to clarify in the standards how sustainability assurance fees should be disclosed in clients' financial statements when a firm provides both financial statement audits and sustainability assurance for the same client. Based on observations from 2012 to 2016, fees arising from sustainability assurance can be disclosed in either NAS or audit-related services fees in the client's financial statements (Lu et al., 2023). It was also found that clients are less likely to obtain sustainability assurance from their incumbent financial statement auditor when the NAS fee ratio is high. However, this impact does not hold with the audit-related fees ratio (Lu et al., 2023). This result implies that the disclosure category of sustainability assurance fees affects the perception of independence of auditors and/or sustainability assurance providers.

The literature lends support for the joint provision of sustainability assurance by incumbent auditors. More than half of sustainability assurance engagements in Australia are obtained from the same firms that provide financial statement audits (Ruiz-Barbadillo & Martínez-Ferrero, 2021; Simnett et al., 2024). This joint provision is associated with metrics suggesting better quality of financial statement audits (Lu et al., 2023; Maso et al., 2020) and sustainability assurance (Ruiz-Barbadillo & Martínez-Ferrero, 2020). The archival evidence supports that clients can benefit from the joint provision because of the knowledge spillover between the sustainability assurance team and audit engagement team (Al-Shaer, 2020; Lu et al., 2023; Maso et al., 2020).

Regarding circumstances where there is a large proportion of sustainability assurance fees relative to audit fees, Lu et al. (2023) find that clients are aware of the perceived independence concerns and that these deter them from obtaining sustainability assurance from incumbent auditors when they have a higher proportion of non-audit services fees, including sustainability assurance fees, to audit fees. When sustainability assurance fees are included in NAS fees, auditors' independence has been assessed by the assurance providers or their clients by considering the proportion of NAS fees to audit fees in accordance with Section 410 of the Code. Given the positive impacts of the joint provision found in the literature (Lu et al., 2023;

Maso et al., 2020), it is reasonable not to set up an additional fee cap when auditors provide sustainability assurance.

However, more evidence is needed to support the proposed amendment in para. 127 of the EM that '[i]n circumstances where a large proportion of fees, relative to the audit fee, is generated by the provision of a sustainability assurance service in compliance with Part 5, the auditor might conclude that the level of threats is at acceptable level'. This amendment may reduce the perceived independence concerns with regard to NAS fees, and it is important that these are taken into account.

Under paragraphs R410.15 and R410.16 in Section 410, assurance providers are required to consider the proportion of total fees received from an audit client, to consider fee dependence and avoid fees being more than 15% of the total revenue of the assurance provider. When auditors provide sustainability assurance to their audit clients, they need to include sustainability assurance fees as a part of the total fees received from an audit client when assessing their fee dependence. Lu et al. (2023) report that when auditors provide sustainability assurance to an audit client, higher fee dependency arises primarily from sustainability assurance fees. The requirement implies that the fee dependency assessment required in Section 410 is more stringent for the audit firms that provide both audits and sustainability assurance to the same clients, relative to those who provide audits only, as they are more likely to reach the threshold by considering audit fee, sustainability assurance fee and other fees. However, we are not aware of any research examining the validity of the 15% threshold beyond what has been discussed in Hay (2017), which noted that dependence, and whether the restriction to 15% was the appropriate level, had not been examined by research.

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?

Response:

No comment.

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

Response:

No comment.

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?

Response:

Yes.

We acknowledge that there are difficulties in developing profession-agnostic ethics standards for sustainability reporting, due to the lack of enforceability of such standards on non-PAs. We also agree with the proposed IESBA approach to in time extend the impact of the Code beyond the accountancy profession. This is largely due to the threat that 'greenwashing' poses to the relevance of sustainability reports. There is a growing literature on 'greenwashing' and the effects it has on sustainability reporting (Free et al., 2024; Moodaley

& Telukdarie, 2023; Pendse et al., 2023; Vollero, 2022). The lack of profession-agnostic ethics standards for sustainability reporting, from the users of the sustainability reports point of view, also places more importance on the assurance of sustainability reports and the ethics standards for sustainability assurance. Hence, in time, and once the proposed International Ethics Standards for Sustainability Assurance Standards are in place, the development of profession-agnostic ethics standards for sustainability reporting is advisable. Such ethical standards should be reporting framework neutral to ensure their wide applicability. In the meantime, the Ethics Considerations in Sustainability Reporting Including Guidance to Address Concerns about Greenwashing, issued by the IESBA in 2022, is a great resource for preparers of sustainability reports when preparing sustainability information, especially in reference to Fundamental Principles of the Code, identification and management of threats.

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?

Response:

Yes.

We agree that the proposals in Chapter 4 containing the proposed sustainability reporting-related revisions to parts 1 and 3 of the Code are responsive to the public interest and provide for coherence with the overall body of the IESBA's standards as well as the relevance, clarity and conciseness of the standards as applicable to sustainability reporting leading to maintaining integrity of parts 1 and 3 and the overall Code implementability and enforceability.

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:
- Proposed revisions to Section 220?
 - Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?
 - Other proposed revisions?

Response:

No comment.

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

Response:

No.

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?

Response:

No.

We would prefer that the IESBA allows as much time as is needed to develop a standard that meets the needs of users and the profession, rather than being committed to a deadline.

There is a risk that the standard will lead to unintended consequences, or that it will need to be revised prematurely if it is developed too quickly.

SUBMISSION 2: Proposed International Ethics Standards on Using the Work of an External Expert

1. Do respondents support the proposals set out in the glossary concerning the proposed new and revised definitions?

We do not support the proposed new and revised definitions of expertise. With reference to a long tradition of academic research examining expert performance, we are of the strong view that reference to experience should be retained in references to expertise. Removal of reference to experience risks inaccurate assessments by the professional accountant and sustainability assurance practitioner of an expert's competence and capabilities. We believe that it is in the public interest to: (1) include experience in the proposed new definition of expertise, and (2) with reference to the revised definition of external expert, refer to the components of expertise (i.e., skills, knowledge and experience) rather than the collective term of expertise.

Research, predominately in auditing but also in other accounting disciplines, presents a comprehensive account of expertise (see Bédard, 1989; Libby & Luft, 1993; Mala & Chand, 2015; Nelson & Tan, 2005; for reviews). Although the majority of research in this area has been undertaken some time ago, the research findings are still applicable and should not be interpreted as lacking contemporary relevance.

Research in accounting clearly shows that expertise is a function of knowledge and ability (e.g., Bonner & Lewis, 1990), the latter of which is analogous to skills. We therefore understand the IESBA's arguments around the exclusion of experience as research highlights that experience is an antecedent of knowledge (e.g., Frederick, 1991). There is, however, a fundamental concern with this argument.

While research highlights that the amount of knowledge is an important determinant of expertise, it also highlights that the structure of that knowledge is critical (e.g., Choo & Trotman, 1991; Harding, 2010; Tubbs, 1992; Weber, 1980). An expert's knowledge is more effectively organised (e.g., Larkin et al., 1980; Norman et al., 1994). Professional accountants (and sustainability assurance practitioners) with the same level of knowledge (and ability) can perform differently depending on the task (e.g., Choo, 1989; Harding & Trotman, 1999; Nelson et al., 1995; Ramsay, 1994). Experience is a critical determinant of the structure with which knowledge is organised (Bédard & Chi, 1993; Gibbins, 1984).

Although it may be argued, as the IESBA does in the Explanatory Memorandum, that a consideration of knowledge implicitly includes a consideration of experience necessary to attain the knowledge, we believe that this focuses attention on the volume of knowledge at the expense of the structure/organisation of that knowledge. Retaining reference to experience, and potentially elaborating on how experience speaks to the organisation and not just the amount of knowledge, facilitates a more comprehensive understanding of expertise and a more precise assessment of an expert's competence and capability.

2. Do respondents support the approach regarding evaluating an external expert's competence, capabilities and objectivity (CCO)? Are there other considerations that should be incorporated in the evaluation of CCO specific to professional accountants in business (PAIBs), professional accountants in public practice (PAPPs) and SAPs?

We believe that there are opportunities for the IESBA to further enhance the approach regarding the evaluation of an external expert's competence, capability and objectivity. We encourage the IESBA to retain reference to experience in the definition of expert (see comments on Question 1) as this will appropriately extend the breadth of the evaluation to cover the nature of the knowledge and skills underlying the expert's competence and capability. We further encourage the IESBA to consider cross-referencing application material relating to paragraph R390.6 to biases that may impact the exercise of professional judgement when evaluating the external expert's competence, capabilities and objectivity (i.e., paragraph 120.12 A1 to paragraph 120.12 A3 in Part 1 of the Code). We are particularly concerned with the potential for overconfidence bias to negatively intrude on these judgements. We support the increased attention to capabilities.

As noted in our response to Question 1, we are strongly of the view that reference to experience when discussing expertise is necessary and will appropriately expand the breadth with which an expert's competence and capability is evaluated. This will further allow the listed factors in paragraph 390.6 A2, which explicitly and implicitly refer to experience, to realise their full potential.

In addition, academic research provides an insight into the effectiveness and accuracy with which accountants (predominantly auditors) assess the competence of others (e.g., Han et al., 2011; Harding & Trotman, 2009; Jamal & Tan, 2001; Kennedy & Peecher, 1997; Tan & Jamal, 2001). A consistent finding of this research is that auditors are inaccurate and overconfident in their assessments of another's competence. An overconfident assessment of another's competence and capability represents a threat to the quality of the professional accountant's work towards which the expert is contributing. Reference to the potential biases threatening the effective exercise of professional judgement, and actions that may mitigate the effect of this bias (i.e., paragraph 120.12 A1 to 120.12 A3) will highlight the need for the professional accountant to be mindful of overconfidence bias (and other potentially deleterious biases).

We support the coverage of capabilities in paragraph 390.6 A3 in that research highlights the deleterious consequences of depletion and pressures on the professional accountant's ability to exercise cognitive self-control (e.g., Baumeister et al., 1998) in the application of an expert's knowledge and skills (see Hurley, 2015 for a review). Considering the external expert's capability/capacity to complete the work is a necessary and important consideration for the professional accountant and sustainability assurance practitioner.

3. In the context of an audit or other assurance (including sustainability assurance) engagement, do respondents agree that the additional provisions relating to evaluating an external expert's objectivity introduce an appropriate level of rigour to address the heightened public interest expectations concerning external experts? If not, what other considerations would help address the heightened public interest expectations?

We do not agree that the additional provisions relating to evaluating an external expert's objectivity when their work contributes to an audit or other assurance engagement are appropriate. We encourage the IESBA to be clear on the objectives for the additional rigour and to ensure that the provisions support these objectives. At present, it is unclear whether the circumstances outlined in paragraph R390.8 are meant to elevate the level of objectivity expected of an external expert before their work can be used in an audit or other assurance engagement, or elevate the degree of accountability and confidence that the auditor or assurance practitioner needs to have in their judgement by requiring more evidence to be collected. To the extent that the goal of paragraph R390.8 is to elevate the necessary level of objectivity beyond that expected for work other than that contributing to audit and assurance engagements, then we encourage the IESBA to be clear that these speak to a higher level of objectivity. To the extent that the IESBA is not codifying different levels of objectivity (i.e., codifying the same

minimum bar for all work towards which the external expert contributes), then we similarly encourage the IESBA to be clear on this and rather than have a separate section on additional circumstances, incorporate such a discussion into paragraph 390.6A4 and require the auditor to reach a greater level of confidence in the external expert's work when it contributes to audit and other assurance engagements.

Objectivity is a critical characteristic of a professional accountant's work and positively contributes to societal value (e.g., Liang & Zhang, 2019). The concept of objectivity has been the subject of discussion in the accounting academic literature for well over 50 years (e.g., Burke, 1964; Chambers, 1964; Wagner, 1965). Following philosophical perspectives (e.g., Moser, 1993), accounting researchers argue that there are levels or degrees of objectivity (e.g., McKernan, 2007; Wojdak, 1970), and research highlights that accountants vary in the level of objectivity they exhibit (e.g., Bamber & Iyer, 2007; Ponemon, 1995; Suh et al., 2021; Svanberg et al., 2017). The IESBA speaks of objectivity as exercising professional or business judgement without being compromised by bias, conflict of interest or undue influence of or undue reliance on individuals, organisations, technology or other factors (paragraph R112.1). Perfect objectivity is unattainable. The question to which the professional accountant or sustainability assurance practitioner must apply their judgement towards is the level at which the expert's objectivity is sufficient to permit the contribution of their work. Given that objectivity exists on a continuum, and the heightened public interest expectations when external experts contribute to audit and other assurance engagements, we have no objection to the IESBA elevating the minimum level of objectivity before which the external expert's work can contribute to these engagements. However, it is unclear whether this is the intention.

It is unclear whether the additional provisions in paragraph R390.8, which essentially speak to the collection of evidence on particular interests, relationships and circumstances that may compromise objectivity, are meant to elevate the minimum level of objectivity for external experts contributing to audit and other assurance work (e.g., a direct financial interest would be acceptable for a non-audit engagement but unacceptable for an audit or other assurance engagement) or that the same level of objectivity is being referred to, but that the auditor/assurance practitioner is expected to have greater confidence in the evaluation by collecting more information/evidence (e.g., direct financial interests are never acceptable but an auditor should build greater confidence in their judgement by collecting specific evidence). Both aims would be consistent with the heightened public interest expectations concerning external experts contributing to audit and other assurance engagements. However, the current lack of clarity will add unnecessary confusion for professional accountants, external experts and users of the professional accountant's work. The complexities inherent in evaluations of independence (e.g., Church et al., 2015; Gramling et al., 2010; Tepalagul & Lin, 2015) are likely also reflected in evaluations of objectivity (cf Svanberg et al., 2019). Furthermore, an additional layer of complexity is added when objectivity is considered across a range of subject matter expertise and different relationships with the client (Boritz et al., 2020). We believe it to be in the public interest to clarify expectations in response to the identified heightened public interest focus in order to minimise any misunderstanding.

To the extent that the objective of the IESBA is to elevate the minimum level of objectivity before an external expert's work can contribute to audit and other assurance engagements, then we encourage the IESBA to be clear that this is the case and prepare more principles-based provisions highlighting the expected differences in objectivity (rather than relying on examples to make this point). To the extent that the objective is to increase the confidence and accountability of the auditor and assurance practitioner for their judgement that the consistent minimum level of objectivity has been achieved, then we encourage the IESBA to clarify this and to clearly state the objective of the additional work expected of the auditor/assurance practitioner.

DATA AVAILABILITY STATEMENT

Data sharing not applicable - no new data generated.

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