

IESBA

International
Ethics Standards
Board for Accountants®

Agenda Item 5-A

Benchmarking of Ethics and Independence Frameworks Applicable to Sustainability Assurance – EU and IESBA

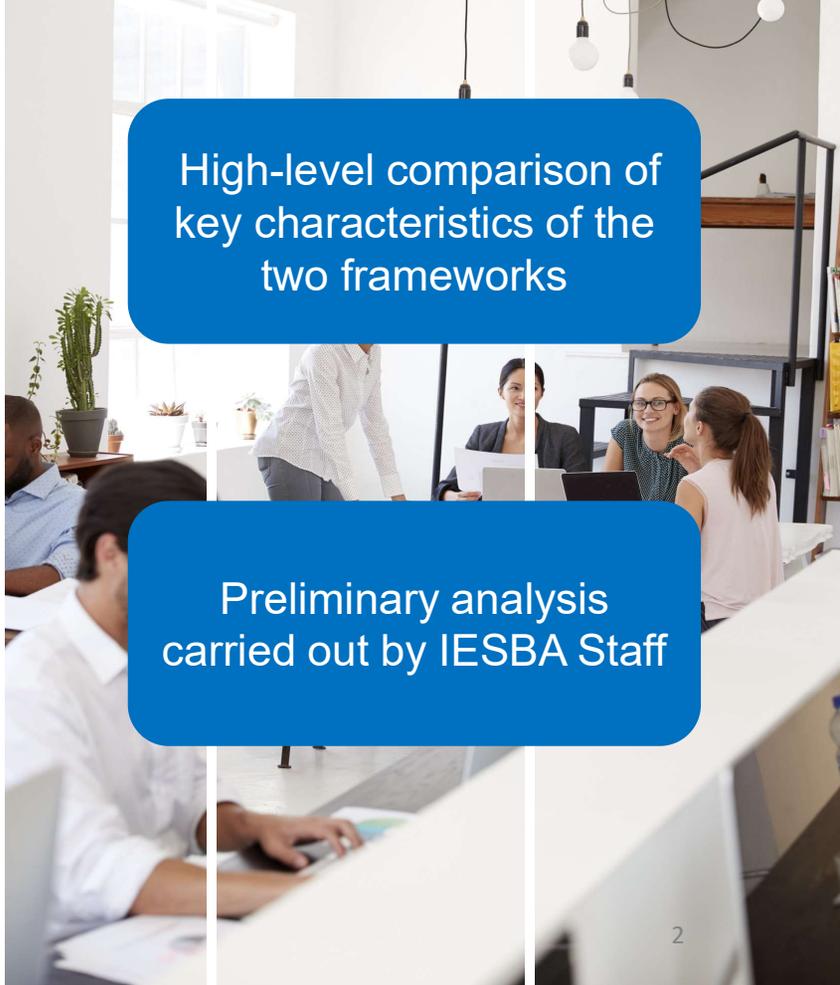
June 2024 IESBA Meeting

IESBA Staff



Objectives of the Session

- To consider an overview of the key areas and preliminary findings of a comparison of the ethics and independence framework applicable to assurance of sustainability reporting in the EU and the IESBA Code
- To discuss next steps regarding the benchmarking



High-level comparison of key characteristics of the two frameworks

Preliminary analysis carried out by IESBA Staff

Benchmarking

Global Framework vs. Jurisdictional Framework

IESBA Code	EU Laws
Proposed <i>International Ethics Standards for Sustainability Assurance (including International Independence Standards)</i> (IESSA)	Directive 2022/2464/EU on corporate sustainability reporting (CSRD)
	Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts (Audit Directive)
	Regulation on specific requirements regarding statutory audit of public-interest entities (Audit Regulation)

Adoption and Implementation

Obligation for Member States to transpose the requirements into national laws

The requirements are directly applicable in Member States

Assurance of Sustainability Reporting in the EU

- Mandatory limited assurance of sustainability reporting of large listed entities prepared in accordance with EU laws
 - Effective from FY 2024
 - Undertakings may decide to have an assurance opinion based on a reasonable assurance engagement
 - EU will consider mandatory reasonable assurance after 2028
- EU laws address assurance of consolidated sustainability reporting

The IIS in proposed IESSA focus on the same type of sustainability assurance engagements

Profession-agnostic Approach

- The 2006/43/EC Directive (Audit Directive) regulates statutory auditors
 - A 'statutory auditor' means a natural person who is approved in accordance with the Directive by the competent authorities of a Member State to carry out statutory audits and, where applicable, the assurance of sustainability reporting
 - CSRD provides Member States the option to allow a statutory auditor other than the auditor of the financial statements to provide the assurance of sustainability reporting → The Directive applies to them as statutory auditors
 - Member States can also allow accredited independent assurance service providers to provide the assurance of sustainability reporting → they should be subject to requirements that are equivalent to the requirements set out in the Directive

Equivalence

- The 537/2014 EU Regulation (Audit Regulation) applies to the statutory audit of the f/s of PIE entities
 - The requirements in the Regulation are directly applicable only when it is the auditor of the f/s performing the assurance of sustainability reporting
 - Firm and partner rotation
 - Threshold regarding total fees from one client
 - Threshold regarding the proportion of non-audit fees to the audit fee
 - Publication of transparency report



Equivalence

- The Directive requires *mutatis mutandis* application of requirements related to independence that are applicable to statutory auditors
 - It does not address the specific characteristics of sustainability assurance engagements, such as:
 - A different reporting boundary compared with financial reporting, e.g. value chain entities
 - Period during which independence is required
 - Prohibited non-audit services



Professional Ethics



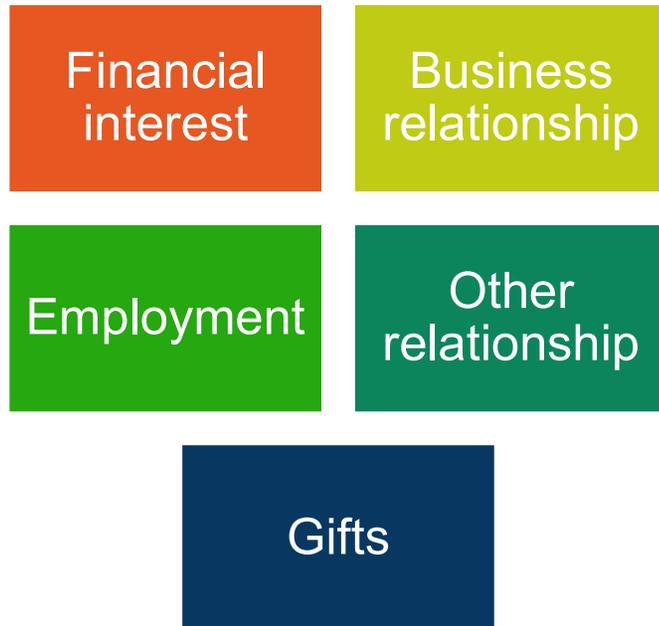
- Directive requires Member States to “ensure that all statutory auditors and audit firms are subject to principles of professional ethics
 - Covering at least their public-interest function, their integrity and objectivity, and their professional competence and due care”
 - Requirements related to confidentiality and professional skepticism
- Directive itself does not provide a detailed ethics framework or conceptual framework
 - It determines objectives that are in line with fundamental principles of the Code
- Articles in Directive on potential irregularities aim to achieve the same objective as IESSA
 - But more comprehensive provisions on NOCLAR in IESSA

Independence

“Member States shall ensure that, when carrying out a statutory audit, a statutory auditor or an audit firm, and any natural person in a position to directly or indirectly influence the outcome of the statutory audit, is independent of the audited entity and is not involved in the decision-taking of the audited entity.”
(Article 22.)

- Directive sets out requirements on internal organization of statutory auditors and audit firms and organization of the work
- It requires statutory auditors and firms participating in the engagement to be *independent* and not to assume management responsibility
 - It addresses the independence of network firms too
- Directive specifies threats to independence that are in line with the conceptual framework in IESSA
 - The EU framework refers to a threats and safeguards approach and does not require the application of a conceptual framework similar to the IESSA's

Relationship with Reporting Entity



- Directive addresses relationships with reporting entity and its related entities that could compromise independence or create a conflict of interest
 - Not as comprehensively as the IESSA
- Both frameworks cover not only the engagement partner/leader but also other individuals who are in a position to directly or indirectly influence the outcome of the engagement
 - Unlike EU framework, IESSA provides detailed independence considerations for group engagements or for others outside of the firm who participate in the engagement (e.g., other practitioners or external experts)

Prohibited Non-Audit Services

- Directive sets out a list of prohibited non-audit services to PIE clients, subsidiaries and parent entities
 - Reference prohibited services for audit of f/s and “mutatis mutandis application”, except for:
 - Payroll services
 - Tax services
- List of prohibited services includes bookkeeping and preparing accounting records and financial statements as well as preparing sustainability reporting



Fees

- Both frameworks prohibit:
 - Contingent fees; and
 - Influence of fees for other services on the assurance fee
- If it is the auditor of the f/s who carries out the assurance work, the Regulation includes requirements on
 - Transparency
 - Threshold regarding total fees from one client
 - Threshold regarding the proportion of non-audit fees to the audit fee
 - It sets out a different approach to proportion of fees than the Code (70 percent fee cap)
- EU laws do not specifically address (for audit or sustainability assurance):
 - Level of fees | Overdue Fees | Compensation and evaluation policies

Matters for IESBA's Consideration

**Any Questions
or Comments?**



IESBA members are asked for views or suggestions regarding the next steps for the benchmarking activity



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