

**IESBA**

International  
Ethics Standards  
Board for Accountants®

## Agenda Item 5-A

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

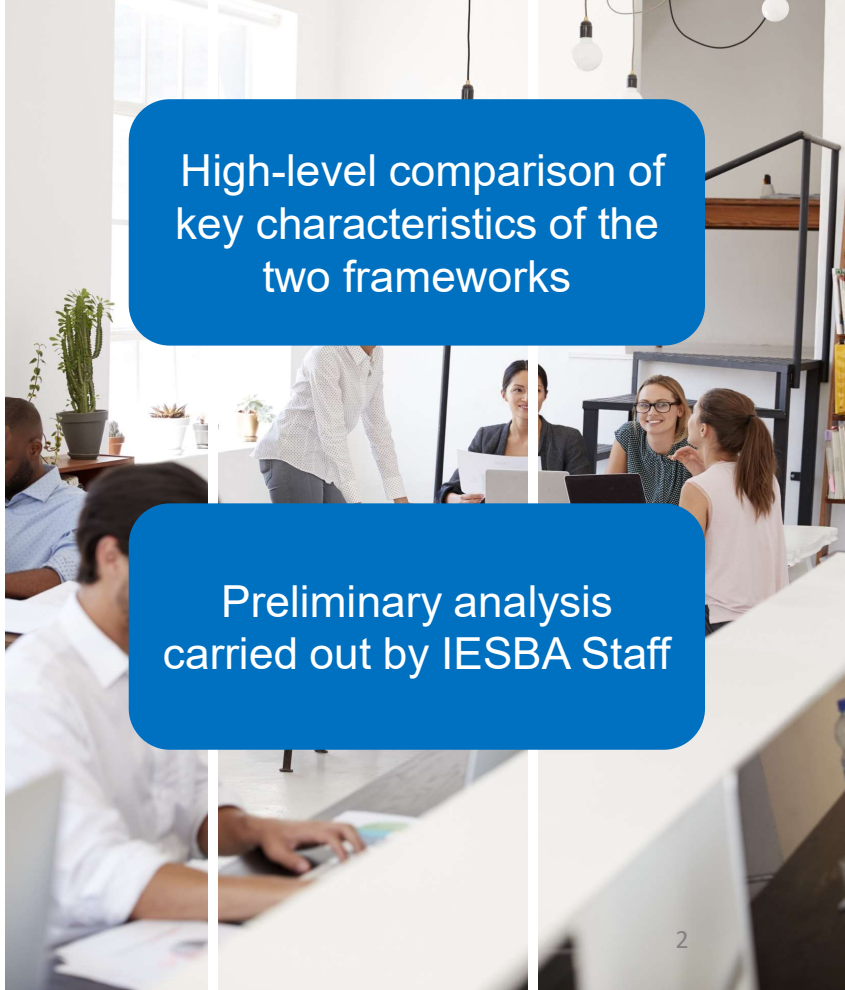
June 2024 IESBA Meeting

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

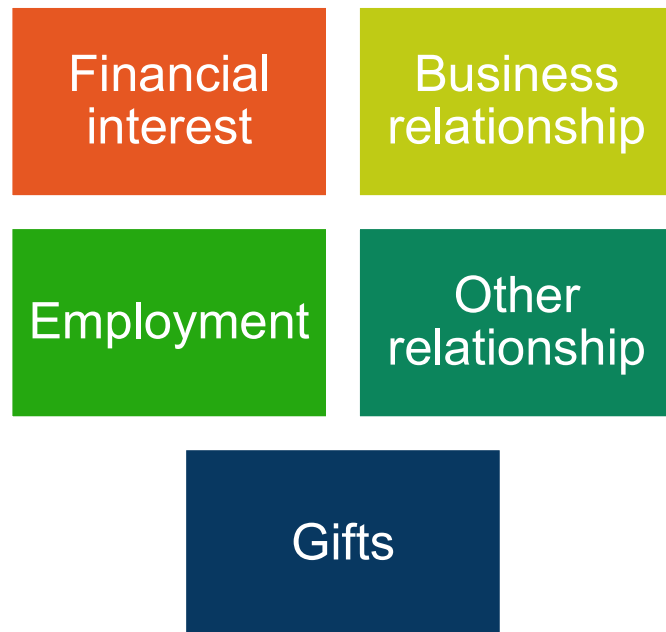


# Independence

“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





*[www.ethicsboard.org](http://www.ethicsboard.org)*



[@Ethics Board](https://twitter.com/Ethics_Board)



[@IESBA](https://www.linkedin.com/company/iesba)



**YouTube** [@IESBA](https://www.youtube.com/channel/UCv3p0D8333333333333333)