



International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue
New York, 10017
USA

7 May 2024

Re : Comment letter relating to the IESBA's Exposure Draft on International Ethics Standards for Sustainability Assurance (including International Independence Standards)

Dear Ms. Gabriela Figueiredo Dias,

1. The CEAOB (Committee of European Auditing Oversight Bodies) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) request for input on its Exposure Draft for *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (ED-IESSA)*. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the CEAOB International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised in this letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports not only continuing improvement of ethical standards for audit engagements, but also the development of standards for the assurance of sustainability reporting.
4. The IESBA Code of Ethics ("Code") is used in several European jurisdictions, but not all of them. The CEAOB clearly sees a benefit in enhancing the Code, as it constitutes a basis for benchmarks at international level. Moreover, a number of international audit firms and networks have voluntarily committed to complying with the Code.



General comments

5. In examining the ED-IESSA, the CEAOB focused on the provisions for audit and sustainability assurance engagements. As a result, this letter does not identify all comments that would be needed on the provisions applicable to professional accountants (PA) when not performing such engagements.
6. The CEAOB consistently encourages the IESBA to enhance the quality, clarity and enforceability of the Code, even though legal ethical rules or provisions in force at the national level in EU and EEA member states, which exist in some areas covered by the Code, will continue to supersede those of the Code.
7. The CEAOB continues to believe that the Code should be clear and enforceable and allow for engagements to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate behaviour: this means that the IESBA should include clear ethical principles along with clear requirements, to promote appropriate ethical behaviour and outcomes.
8. The CEAOB would like to reiterate its support for the IESBA's project to develop ethics (including independence) standards for sustainability assurance. Developing international standards that provide a reference framework at international level might help to foster appropriate behaviour by practitioners.
9. As sustainability and financial reporting is expected to develop towards an equal footing over time, the CEAOB strongly believes that the ethical provisions concerning sustainability assurance engagements and audit engagements should be equivalent. Accordingly, the CEAOB is particularly supportive of the premise by the IESBA that the same high standards of ethical behaviour and independence that apply to audits of financial information should be complied with in sustainability assurance engagements. It is also in the public interest to use consistent language in the provisions applicable to the audit of financial statements and to the provisions applicable to assurance of sustainability information, wherever practicable. Differences in language should be on an exceptional basis.
10. In this context, it will also be essential for the IESBA to ensure consistency of the requirements for audit and sustainability assurance engagements going forward. The proposed structure with duplicate provisions might make this challenging (e.g. the fundamental principles for PAs in part 1 and in part 5 for sustainability assurance practitioners (SAPs)) as part of the future maintenance.
11. Regarding the provisions for sustainability assurance engagements, the CEAOB continues to appreciate close coordination between the IESBA and the IAASB to ensure terms and definitions are as consistent as possible in order to facilitate global consistency in the standards and their application.
12. The CEAOB supports the IESBA's proposal to align the effective date of the final IESSA with the effective date of ISSA 5000 by the IAASB.
13. In the same vein, the CEAOB further supports the IESBA's intention to proceed with addressing matters that have only been covered in a general and overarching way by the





proposed assurance standard on sustainability reporting (ED-ISSA 5000) such as group audits,¹ to facilitate alignment between the IESBA and the IAASB on this topic.

14. In the CEAOB's letter dated 7 July 2023 relating to the IESBA Strategy and Work Plan for 2024-2027 we welcomed initiatives to reach out to a wide range of stakeholders even outside the accounting profession and get an understanding of the ethical frameworks assurance providers outside the audit profession use. We encourage the IESBA to continue the dialogue with all relevant stakeholders and invite the IESBA to establish avenues to obtain further feedback on the final provisions after an initial implementation period, as part of a post-implementation review or through other ways of getting an understanding how the IESSA is applied. To ensure that terminologies and provisions adopted have the effects as intended by IESBA, the post implementation review would benefit from a specific focus on feedback from new users, outside the traditional IESBA audience to assess consistency of application of the provisions by all SAPs, whether or not familiar with the extant Code for PAs.
15. We also want to re-emphasize from said letter that the objective of achieving global acceptance of the Code, including adoption of part 5 by non-accountants, should not come at the cost of lowering the quality of the Code, which would be detrimental to the public interest.

Structure and scope of ED-IESSA

16. The title of extant Code is "*Handbook of the International Code of Ethics for Professional Accountants including International Independence Standards*". Given the proposed changes and the objective to develop ethics and independence standards for all SAPs, (i.e. including non-professional accountants) we invite the IESBA to consider reflecting the extended scope in the name of the Code.
17. Due to the changes to the Code more clarity is needed for PAs and SAPs to determine which parts they must comply with (i.e. for PAs parts 1-4 and for SAPs part 5). This should be made clear also in the Guide to the Code rather than in paragraph 5100.2 only. The CEAOB identified a risk that the overall structure of the Code might be misunderstood and that ethical provisions applicable to a PA vs. ethical provisions applicable to an engagement are not fully clear to all users. Additional explanations would help to clarify the structure.
18. We suggest adding material clarifying where there are practical differences between parts 1-4 and part 5, to facilitate implementation by PAs that also perform sustainability assurance engagements.
19. In the same vein, we note that Appendices 1 and 3 included in the Explanatory Memorandum (EM) are useful for PAs and SAPs. Therefore, we recommend including those flowcharts as application material in the final standard, as guidance for PAs and SAPs helping them to understand the provisions appropriately.

¹ As explained in paragraph 86 of the Explanatory Memorandum (EM).



Determination of a Public Interest Entity (PIE)

20. Paragraph 83 of the EM outlines the IESBA's proposal to apply the audit definition of PIE to Part 5. However, it would seem that the references to Part 4A in the Glossary have not been updated to reflect the "Revisions to the Definitions of Listed Entity and Public Interest Entity" in the Code issued in 2022 by the IESBA. In addition, the IESBA should allow for national/jurisdictional definitions of 'PIE' for the purposes of a sustainability assurance engagement.

Responding to non-compliance with laws and regulations (NOCLAR)

21. Unless prohibited by law or regulation the SAP should be required to communicate NOCLAR to the client's external auditor rather than just consider whether to communicate this information as proposed in the ED-IESSA (R5360.18a). Similarly, the PA should report any NOCLAR to the client's SAP (R360.18a).

Another practitioner involved in a sustainability assurance engagement for a single entity or group

22. If a firm (as defined in the ED-IESSA) intends to use the work of another practitioner that performs assurance work at the firm's sustainability assurance client appropriate communication between both of them is crucial. We believe that the firm should be required to communicate the matters included in 5406.3A1 to the other practitioner. The terms used currently (i.e. "examples"; "might") give room for interpretation and the matters could be regarded as information that does not have to be communicated.

23. R5406.5 requires the firm to request the other practitioner to confirm its independence. However, no provisions are included covering instances where the practitioner cannot obtain an independence confirmation from the other practitioner or is not satisfied with the confirmation received. We understand that these issues should be addressed consistently with ISSA 5000 and we encourage the IESBA to continue its dialogue with the IAASB.

24. We are of the view that the other practitioner should be requested to provide the confirmations in R5406.4 and R5406.5 in writing.

Independence considerations relating to assurance work at, or with respect to, a value chain entity

25. It would be helpful for ED-IESSA to expand on the independence statement in the assurance report of the SAP at a value chain entity the practitioner may rely on (R5407.4A1). Clarification is needed concerning the content of the independence statement and what the SAP at a value chain entity should have reported on (e.g. reference to the independence requirements complied with) so that the practitioner is permitted to rely on it. This would ensure the SAP at the value chain has complied with the same high standards of ethical behaviour and independence as the practitioner.



26. As for the confirmations from another practitioner in section 5406 of the Code, we believe that the other practitioner should be requested to provide the confirmations in R5407.5 in writing.
27. We are of the view that key issues around independence and objectivity considerations relating to value chain entities are not resolved in ED-IESSA. Additional scrutiny is needed to determine how to address the different scenarios in a sustainability assurance engagement where information from a value chain entity is included in the sustainability reporting of an assurance client in a practical way.

Provision of non-assurance services to a sustainability assurance client

28. We note that the IESBA has taken an equivalent approach to the independence standards for audit engagements regarding the provision of non-assurance services to a sustainability assurance client. General requirements and application material set out in Section 600 of Part 4A for audit engagements have been included in section 5600 of ED-IESSA. We invite the IESBA to reinforce the proposed requirements in order to take more into consideration the rules concerning the provision of non-assurance services already in place in several jurisdictions, such as the Corporate Sustainability Reporting Directive in the European Union, and thereby contributing to the quality of sustainability assurance engagements across jurisdictions.
29. We encourage the IESBA to expand especially on the threats to compliance with the fundamental principles and to independence when providing non-assurance services to a sustainability assurance client, especially for those to which this is a new concept. We also invite the IESBA to consider whether the same improvements should be applied in section 600 ensuring a consistent approach throughout the Code.
30. We believe that certain non-assurances services create self-review threats in almost all circumstances. We are concerned that the current terms “...if the provision of ... service(s) might create a self-review threat...” or “...might create a self-review threat when there is a risk that...” will be subject to various interpretations and judgements by practitioners resulting in inconsistent application. Against this backdrop, we highlight that the provisions do not clarify that these non-assurance services create a self-review threat in most if not all circumstances. Considering also the lack of sufficient and appropriate guidance on how the PA or SAP determines that there is a self-review threat we continue² to urge the IESBA to further limit the provision of these services to PIEs given the particular public interest in such entities. We also stress that clear and well understood provisions are essential to support enforceability.
31. In this context, the changes made to the ED-IESSA based on feedback received to the consultation should feed through to the related sections in Part 4 of the Code.

² We want to draw your attention to the CEAOB comment letter relating to the IESBA Exposure Draft on Non-Assurance Services dated 5 May 2020.



Interest, relationships or circumstances involving value chain entities

32. Even if the "knows, or has reason to believe" principle is established in the current Code, this concept remains subject to interpretation and SAPs outside the accounting profession or those that do not apply the current Code might be less experienced in applying it. For consistent understanding and application of the Code, the IESBA should elaborate more on this concept and provide examples as well as guidance in part 5.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Sub-group should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent

Chairman