



The Chairman

International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017

10 May 2024

Comments on 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 Sirs:

Assirevi is the association of the Italian audit firms. Its member firms represent the vast majority of the audit firms licensed to audit companies listed on the Italian stock exchange and other public interest entities in Italy, under the supervision of CONSOB (the Italian Commission for listed companies and the stock exchange).

Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for the benefit of its members. It collaborates with CONSOB, the Italian accounting profession and other bodies in developing auditing and accounting standards.

Therefore, the issues covered in the 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*” issued by IESBA in January 2024 are relevant to the Association, that is consequently pleased to submit its comments on the consultation.

Should you have any queries, please do not hesitate to contact us.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Gianmario Crescentino".

Gianmario Crescentino
Chairman

(Enclosure)

COMMENTS ON THE 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

(January 2024)

Assirevi is grateful for the opportunity granted with the above-mentioned Exposure Draft (“ED”) and is pleased to contribute by providing the following comments on the project described therein.

Assirevi appreciates and agrees with the integration in the IESBA Code of a new Part 5 which extends to sustainability assurance engagements the same high standards of ethical behavior and independence already applied to audit of financial information contained in extant Part 4A.

Nonetheless, in Assirevi’s view, the application of this principle of equivalence, in some circumstances, should be carefully assessed (see, answer to question n. 1).

For instance, the IESBA proposes that Part 5 specifically addresses the independence considerations applicable to group sustainability assurance engagements. Such considerations cannot be equivalent to those applied to audit engagement because there is no equivalent standard to ISA 600 (Revised). Indeed, the new sustainability assurance standard ISSA 5000, as contained in IESBA’s Exposure Draft “*Proposed ISSA 5000, general requirements for sustainability assurance engagements*”, is not sufficient to provide adequate guidance about the work to be performed regarding groups or “consolidated” sustainability information. The standard currently does not deal with this matter in a detailed manner, establishing specific requirements and guidance on the basis of those provided in ISA 600 (Revised) to ensure the adequate and effective planning and performance of the engagement. Therefore, Assirevi believes that the independence principles for group sustainability assurance engagements should be addressed in another following release of the Code of Ethics, once performance standards are adopted. See, for more details, answer to question n. 10.

In any case, apart from the independence considerations applicable to group sustainability assurance engagements, Assirevi believes that independence principles cannot be adopted until specific performance standards are issued. It is worth noting that independence threats may be different depending on how the assurance is carried out, in accordance with performance standards. We are aware of the pending consultation process for the issuance of ISSA 5000 concerning assurance sustainability reporting. In this regard, in our opinion, it is essential that the current consultation on the independence principles applicable for sustainability information assurance is re-proposed when the framework of ISSA 5000 is fully defined, so that its effects on ethics and independence rules can be properly assessed.

Indeed, in the past, IFAC boards have always developed a process characterized by a first step consisting in the identification of auditing standards by the IAASB and by a second step consisting in the IESBA's definition of ethics and independence rules set up in the light of the risks emerging from the activities required to the auditor.

Given the above, please find below our specific comments relating to certain questions contained within the explanatory memorandum of the Exposure Draft.

- 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?**
 - (b) Profession-agnostic and framework-neutral?**

We agree with the proposed intent, except for some elements.

The key principles of equivalence to audit, profession-agnostic and framework-neutral standards are those that should inform the IESBA activity.

Conceptually, we appreciate and agree with the approach used in the ED to maintain the equivalence of the ethics (including independence) provisions between the sustainability assurance engagements and audit engagements and that these provisions apply to all sustainability assurance practitioners, including those who are not professional accountants (Pas) and in relation to any reporting or assurance framework.

With respect to the equivalence, we understand the aim of this approach to be aligned with the Public Interest Framework's qualitative characteristics.

Although we agree with the principle of equivalence, we believe that the lack of performance standards (or of a standard to perform sustainability assurance engagements) weakens the proposed ethics and independence standards. This lack makes those standards unrealizable and inapplicable in certain parts and exposes the stakeholders to multiple approaches and outcomes depending on which performance standards the sustainability assurance practitioner (SAP) will in fact adopt. This could lead to non-homogeneous and highly non-comparable assurance reports. Moreover, IESBA adopted the same words and approaches (save for minor changes in definitions and few examples and guidance) of the extant Code, highlighting into the ED the substantial difference between audit or review of a financial statements and an assurance on sustainability information. We understand that this may be viewed as a practical "expedient", but this approach, together with the lack of performance standards, would result in deployment issues, uncertainties, different approaches taken in practice, etc..

This is the case, for example, with an assurance engagement on “consolidated” or “group” sustainability information. The “consolidation” of sustainability information is different from the concept of consolidation of “component” financial information for group financial statements purposes. In effect, sustainability information may be consolidated or aggregated from the entity’s broader value chain and this aspect is specific to sustainability reporting and assurance.

The mere equivalence and translation of ethics and independence standards for group audit engagements without specific requirements and assurance procedures for group sustainability assurance engagements could generate the risk of different approach and inconsistent application of the proposed ethics and independence standards.

Another example of the limits of taking an equivalent approach to the independence standards for audit engagements is that of independence consideration about the “related entities”. Indeed, the definition of “related entities” for the group financial statements purposes is not appropriate for group sustainability assurance. We believe that this definition should be based on the performance requirements for sustainability assurance engagements to facilitate the assessment of the level of independence threats for this kind of engagements. Is the significant influence-material entity really “related entity” for an assurance engagement of this nature? We do not believe so.

Given the above considerations, we recommend that the practical application of the equivalence approach be revised to decline and tailor it to the characteristics and purposes of sustainability assurance engagements and to allow consistent implementation of the proposed ethics and independence standards in line with the Public Interest Framework characteristics.

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?

Overall, we agree. See the clarifications provided in the following responses (nr. 10, 11, 12, 13, 14, 17 and 20).

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)?
 - [...]
 - (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”)?

We do not support the proposed approach in the International Ethics Standards for Sustainability Assurance (IESSA). As mentioned above, the reason is related to the lack of a performance standard applicable in the context of group sustainability assurance engagements at present.

We do not believe it is possible for the IESBA to address independence issues without the IAASB previously having developed a performance standard to guide the assurance sustainability practitioner in performing his work.

Specifically, ISSA 5000 provides general principles, but it doesn't outline the specific steps to carry out the work. ISSA 5000 (or a separate standard) should provide more detailed guidance on the work to be carried out to ensure effective and adequate planning and execution of the engagement related to group components, as provided in ISA 600 (Revised).

We believe it is important that the IAASB issues content relating to group sustainability assurance engagements in a further release of the ISSA 5000 or as a separate standard, using ISA 600 as a basis to elaborate these requirements; this is crucial to perform consistent and high-quality assurance engagements in the public interest. We understand the complexity of developing a new standard, in the meantime, it could be helpful having an implementation guidance to perform sustainability group assurance engagements.

In this situation, we'll potentially have different approaches adopted; indeed, professional accountants can use their knowledge of ISA 600 (Revised) in performing assurance engagements on the consolidated sustainability information, although we do not believe it is reasonably sufficient because certain concepts cannot be applied in sustainability assurance engagements.

On the other hand, another assurance practitioner does not have this experience (e.g. they do not know how to evaluate the aggregation process) and we believe the ISSA 5000 is a general principle that doesn't provide insights on how to perform this type of engagements.

This means that we'll have different approaches adopted in practice on group sustainability information and this could lead to inconsistency and can have impact on inefficiency and quality.

We are of the opinion that an assurance engagement in "consolidated" or group sustainability information must have certain characteristics that should be dealt with, such as, for example:

- procedures that the practitioner should perform in the aggregation/consolidation process of sustainability information for groups,
- understanding of the group, its components and the environment,
- sustainability assurance procedure to be performed at components level,
- definition of the responsibility of the group auditor for information obtained from another practitioner that performs an assurance engagement for a group component or for entities in the reporting entity's value chain, as part of the process to evaluate the evidence obtained,
- definition of the criteria that attribute direction, supervision and review to a group sustainability assurance firm regarding the work performed by another company within the group.

In conclusion, Assirevi believes that until specific performance standards are issued, the IESBA cannot proceed to develop independence principles. In this regard, it is worth noting that independence threats may be different depending on how the assurance is carried out in accordance with performance standards. Therefore, we believe it is essential that the present consultation on the independence principles applicable for sustainability information assurance is repropounded when the framework of ISSA 5000 is fully defined, so that its effects on ethics and independence rules can be properly assessed.

Indeed, in the past, IFAC boards have always developed a process characterized by a first step consisting in the identification of auditing standards by the IAASB and by a second step consisting in the IESBA's definition of ethics and independence rules set up in the light of the risks emerging from the activities required to the auditor.

11. Section 5406 addresses the independence consideration 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 provision set out in Section 5406?

Assirevi supports the approach that where a practitioner whose work the firm intends to use is not under the firm's direction and supervision, the firm cannot directly require that practitioner to comply with the Code's provision; in some instances, that practitioner might have already completed his assurance work and might not have been subject to Part 5 of the Code.

In this case, we agree with the approach that requires practitioners to become aware of the main ethical and independence requirements and that such practitioner must be required to confirm that they understand the requirements and that they will comply with those requirements in carrying out the work, or, in the case where the work has already been completed, that they fulfilled all those provisions in the course of the work performed.

However, we disagree that both the practitioner and the individuals from the practitioner must confirm that they are independent not only of the entity to which the practitioner has carried out assurance work on sustainability information, but also of other entities in the group to which that entity belongs.

Similarly, we disagree that if the "another practitioner" carries out an assurance work on an entity that is not a PIE, but an entity for which the firm must express an assurance opinion on sustainability, then the practitioner must confirm that is compliant with the rules of independence applicable to PIE.

This approach is considered to be difficult to apply and not efficient, especially for the assumption of assurance activities that the practitioner might have performed before being required to confirm independence.

It is considered more appropriate for the practitioner to be required to be independent limited to the entity for which they carried out the sustainability assurance work, and with respect to the rules applicable for the entity itself.

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]

Assirevi agrees that the value chain is not considered a component of the group sustainability assurance. However, considering the current absence of a performance standard applicable in the context of group sustainability assurance engagements, as illustrated above, it is believed that the definition should be reevaluated following the issuance of the reference standard. Notwithstanding the above, see comments to questions nr. 13 and 14.

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]

Assirevi does not support the indications of Section 5407 for the reasons described below.

On one hand, the value chain may be very articulated and each entity may be value chain entity of other entities. On the other hand, with respect to entities belonging to the value chain, evaluation of the independence requirements is closely tied to the assurance work that the practitioner has to perform on the information related to the entities in the value chain that is material to the sustainability information. As mentioned above, the ISSA 5000 currently lacks suitable requirements and guidance to allow practitioners to plan and perform engagements for these entities properly and effectively. Definition of independence rules applicable to practitioners requested to perform assurance activities on entities in the value chain depends on their reporting boundaries.

If it is not yet clear which assurance activities are to be performed and with respect to which scope, how can their impact on independence be assessed?

Furthermore, it should be noted that a value chain entity may not be part of the assurance client's organizational boundary and thus not be under its control. For instance, the value chain entity is not subject to the oversight of those charged with governance of the client. In this context, all independence considerations about the value chain entity are left to the professional accountant; whereas, usually, the assessment of independence does not only involve the professional accountant, but also the client (e.g., the client's audit committee).

In addition, Assirevi believes that the proposed approach regarding independence in relation to the sustainability assurance work to be performed at the level of a value chain entity (ref. 5407.2 A1 letters a) and b) addressing the cases where the SAP performs the sustainability assurance work at the value chain entity, and when it relies on the work of another sustainability assurance practitioner who performs the assurance work at the level of the value chain entity), involves the risk of creating situations in practice that lead to the impossibility for most firms to be able to perform the assurance work. This is due to the potential presence of independence issues on multiple value chain entities and consequent limitations to the work. The proposed approach therefore appears so restrictive as to limit in practice the possibility of performing the work or in any case to create significant limitations. In fact, it is not considered either practicable or reasonable to expect that the sustainability assurance practitioner should be independent with respect to the value chain and moreover with respect to companies that are outside the concept of "related entities" in relation to the assurance sustainability client.

It is also noted that if the SAP uses the work of another sustainability assurance practitioner who performs assurance on the value chain, the same does not have direction, supervision and review, as detailed in the response to question 14 below.

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?**

The Exposure Draft deals with the use by a firm of the work of a sustainability assurance practitioner who separately performs the assurance work at a value chain entity for the purposes of expressing the opinion on its client's sustainability assurance. In this regard the IESBA proposes to consider independence threats arising from interests, relationships and circumstances between the firm itself, which carries out sustainability assurance work, its network, team members on one side and the value chain entity on the other.

Assirevi believes it is important to maintain independence for the firm and its team performing the sustainability assurance engagement towards the sustainability assurance client. Nonetheless we disagree with the proposal contained in the Exposure Draft, as it would create complexity insofar as the firm has no relationship, direction, supervision and review over the value chain entity or the sustainability assurance practitioner used. These entities are outside the firm's governance: both the value chain and the practitioner who separately performs the assurance work at a value chain entity belong to an autonomous legal sphere, external to that of the firm. The client itself, that is the subject of the sustainability assurance, does not have control tools to carry out checks on the value chain entity.

It should be noted that the firm, which employs the work of the sustainability assurance practitioner who performs the assurance work at a value chain entity, uses a practitioner who must be independent in relation to the value chain entity on which he has performed activities. Therefore, the threat to independence is already safeguarded by the work carried out by the practitioner used by the firm, which must be independent of the value chain entity on which it carries out the work. To the extent that he is independent, the activity carried out by the same, that is used by the firm for carrying out its sustainability assurance activity of its client, ensures the maintenance of the necessary objectivity requirements.

Furthermore, the evaluation principle invoked for such situations is the "Knows or has reasons to believe" which should not imply active research, but the need to assess these situations if encountered; in this respect the Exposure Draft is not clear on how to detect these situations and what it is necessary to do if you come across them.

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)?

We disagree with the proposed approach in relation to the proportion of fees. It is inconsistent with the approach adopted by the IESBA in terms of equivalence and completely disconnected from the intention to elevate the ethics and independence requirements applicable to sustainability assurance to the same level of those applicable to audit and review. It also appears that IESBA intends to embed in Part 5 a mechanism to limit the ability of the professional accountant to serve in both roles as auditor and as sustainability assurance provider; this is outside the remits of the IESBA. We believe that the approach must be revised by considering the fees from sustainability assurance of the same nature of those from audit and review.

In fact, given the main objectives of the IESSA and, in particular, the approach used in the ED to maintain the equivalence of the ethics (including independence) provisions between the sustainability assurance engagements and audit engagements, we believe that no self-interest threats exist and that sustainability assurance fees should be considered like audit and review fees for the purposes of the fee proportion calculations. Therefore, we don't support the proposal of IESBA to apply the provisions in Section 410 in Part 4A of the extant Code regarding the evaluation of the threats created by the proportion of fees for services other than audit, including sustainability assurance engagements, to the audit fee.

For long association with the client, we agree with the IESBA proposal. Indeed, this approach is consistent with the equivalence principle and the approach adopted for the fee should be applied in the same way.

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?

We agree with the objectives of this Work Stream (WS) to explore the extension of impact of the Code to all preparers of sustainability information. The preparers are those who has the primary responsibility and accountability of making available the sustainability information to the stakeholders and expanding the scope of the Code to them is in the public interests. We think that the first step for this WS is to develop a comprehensive reach out program to target large and medium-size companies to gather inputs and comments to amend/improve the current sections of the Code relating to the professional accountant in business.