

April 30, 2024

Ref.: *Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting which was developed and approved by the IESBA*

International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

Dear Sirs,

The Comitê Brasileiro de Pronunciamentos de Sustentabilidade (CBPS), together with the Conselho Federal de Contabilidade (CFC) and Instituto Brasileiro de Auditoria Independente (IBRACON) are pleased to offer our comments on International Ethics Standards Board for Accountants (IESBA) in respect to 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 which was developed and approved by the IESBA*. Please see our comments and responses to the Invitation to Comment questions in the Appendix.

The following are the Exposure Draft sections for which there are some more specific questions from certain more technical paragraphs. The questions have been replicated below to give context to our general comments; however, there are other questions in these sections that can be seen in the complete ED document:

a) 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? [See paragraphs 21 and 22 of this document]

Comments:

We agree that the public interest in sustainability information should have the same weight and reliance as in the financial information from entities' financial reports, subject to independent audit engagement. Consequently, the expectations of users of the assurance report in relation to ethics and independence requirements should be the same as those met for audit engagements.

However, we emphasize again, in connection with what was already mentioned in our comments on the ISSA 5000 Exposure Draft last year, that non-accounting professionals performing assurance engagements may not have the same understanding of the requirements of the assurance engagement standards, ethics and independence requirements that accounting professionals already have, taking into account the following aspects:

- Accounting professionals, especially those in the audit category, have already followed these standards in a consolidated manner over decades;
- In many jurisdictions they are subject to required or voluntary continuing professional development (CPD) programs;
- They are subject to technical qualification exams for specific activities;
- They are required by regulation to maintain a quality management system (ISQM);
- They are subject to periodic inspections by regulators and are subject to independent review programs (e.g.: Peer review).

Finally, conveying accurately the existing requirements in the IESBA Code in relation to audit engagements to the (new) Part 5000 of the Code and requiring other non-accounting professionals to follow these requirements, can result in simplicity in understanding and, consequently, in failure to comply with these requirements, generating inconsistency in their application and, therefore, not meeting the expectations of the public interest. We recommend that, in addition to these requirements, IESBA can address other requirements such as the need for these other professionals to develop and implement quality management systems, as well as education programs focusing on professional skepticism. In addition, it would be appropriate for IESBA to collaborate with other professional bodies in standardizing these requirements and fundamental principles in their characteristics of the profession.

b) 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? [See paragraphs 102 and 103 of this document]

(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? [See paragraphs 111 to 114 of this document]

Comments:

We agree that, depending on the use of information and reliance on sustainability reports or information from other companies that are not part of the client’s corporate structure or economic group, such as the customers or suppliers of the client or companies in the market that provide supporting information to entities as a whole in a particular industry or jurisdiction (understood as “Value Chain Entities”), it is possible that threats to the independence of the practitioner providing assurance engagement may arise due to some relationship or circumstance that this practitioner may have with said entities, whose information will make up the sustainability information that will be assured.

However, it is necessary to develop and provide more details on how threats can be created and, in particular, what safeguards can be applied to reduce risks to acceptable levels.

Some general comments that may compromise the acceptance of assurance engagement by different practitioners, depending on the range of services and relationships they may have in the market and in the community:

- Given that Value Chain Entities may be non-assurance/advisory clients of the audit firm, conflicts may arise and make the execution of the assurance engagement unfeasible.
- As a consequence of the existence of conflicts, there is the possibility of a significant reduction in the market of options for sustainability assurance service providers to serve a given entity.
- Furthermore, the need to maintain a structure necessary to comply with the independence requirements regarding Value Chain Entities can be complex and costly, discouraging, in particular, audit firms that have strict controls for monitoring independence aspects, with control management systems already developed.
- Finally, for the purposes of auditing financial statements, independence analysis basically considers the relationships between the audit firm and its audit client and related entities. When the practitioner that will assure the sustainability information report is the same audit firm that audits the financial statements, it is possible to conclude that the firm is not independent and would not be able to carry out sustainability assurance engagement due to facts and circumstances with some Value Chain Entity. However, this firm is the independent auditor of the financial statements. This disconnection between understandings and conclusions can lead to confusion in the view of users of both information for the public interest – how would the same firm be independent for the purposes of auditing the financial statements and not be independent for sustainability information?

c) 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 TCWG)? [See paragraphs 115 and 116 of this document]

16. Subsections 5601 to 5610 address specific types of NAS. [See paragraphs 118 to 120 of this document]

(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?

Comments:

Unlike the provision of non-assurance services (NAS), provided for in Part A of the Code, which addresses the auditor independence in the audit services of financial statements, we understand that the range of non-assurance services related to sustainability information can be very extensive and difficult to address it in the Code. Further clarification and examples of what may pose a threat to the independence required in assurance engagement can be as valuable as providing a list of permitted and non-permitted services.

Connecting again to the comment above about another practitioner who is not an accounting professional providing assurance engagement, it is possible that the understanding of restrictions on types of services provided at the client or its related companies or even at Value Chain Entities is not achieved adequately or even evaluated without the same professional skepticism that an accounting professional has developed throughout the profession, due to their experience in providing assurance of the financial information of their clients. In short, a practitioner who is not an

accounting professional can very simply conclude that there is no threat to independence, while an accounting professional can conclude that their objectivity and independence would be compromised by the same identified situation.

d) 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)? [See paragraphs 123 to 131 of this document]

Comments:

We believe that, in many cases, stakeholders and public interest may dictate that both services can be provided by the same practitioner. However, the financial statement auditor is required to disclose their fees, including fees for non-assurance services (NAS). We understand that fees for sustainability information assurance services should not be considered as NAS, as it can lead to confusion and misunderstanding of the independent auditor's work, given that some jurisdictions may be more restrictive in relation to the proportion of audit fees versus NAS fees. Because both services (audit and assurance) have similar ethics and independence requirements, the Code could explain and categorize such fees in a segregated manner so that users of the information can understand the total volume of fees that are for services that require the auditor independence.

e) Independence Matters Arising When a Firm Performs Both Audit and Sustainability Assurance Engagements for the Same Client

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?

Comments:

Due to the concerns mentioned above and given the complexity of the topic, extending the effectiveness of the proposal would allow auditing firms and non-accounting professionals to better prepare.

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Best Regards,

ANA TÉRCIA LOPES RODRIGUES
Technical Vice-president - CFC

LEANDRO ARDITO
International Relations Coordinator - CBPS

SEBASTIAN SOARES
President - IBRACON