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Chair
International Ethics Standard Board for Accountants (IESBA)

Sent via IESBA website

Vienna, 10. May 2024

Subject: Proposed IESSA and Other Revisions to the Code Relating to Sustainability Assurance and Reporting

Dear Gabriela,

iwp – Institut Österreichischer Wirtschaftsprüfer:innen welcomes the opportunity to provide you with its comments on the IESBA's Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting.

As sustainability reporting enters into a new era, with reporting standards aiming at the transparency required to direct financial and other resources into the transition to a sustainable economy, high-quality assurance on sustainability reporting is key to achieving this goal. Inconsistent requirements and quality of assurance provided, including underlying ethical standards, would undermine reliability and value for stakeholders to such an extent that public trust in any type of assurance would be called into question.

From this perspective, the following basic requirements need, in iwp's view, to be met by ethical standards for sustainability assurance:

- Ethical standards for sustainability assurance need to be profession-agnostic, framework-neutral and principles-based.

- Being profession-agnostic, ethical standards for sustainability assurance should be clear and comprehensible for addressees with any professional background.
- To foster acceptance and adoption by national legislators and regulators, ethical standards for sustainability assurance need to respect both the allocation of responsibilities between those charged with governance over the sustainability assurance client and the sustainability assurance provider as well as decisions made by local legislators and regulators in view of the public interest relevant to ethical requirements for sustainability assurance providers.

In this context, it should be noted that the member countries of the European Union are the only countries in the world where, as of now, sustainability reporting and assurance are mandatory for a very broad range of undertakings. In the legislative process, independence of the sustainability assurance providers was carefully considered by legislators, establishing a profession-agnostic scheme of independence and other ethical requirements and correspondingly amending legal corporate governance requirements and responsibilities. We are of the view that the Code, in order to find acceptance in the EU, will need to be compatible with this scheme, well-balanced to meet the public interest, and must not go beyond in some areas and stay behind in others.

The legislative bodies of the European Union acknowledge that “assurance on sustainability reporting being provided by the auditor of the financial statements would help to ensure the connectivity between, and consistency of, financial and sustainability information, which is particularly important for users of sustainability information” (Directive (EU) 2022/2464, “Corporate Sustainability Reporting Directive [CSRD]”, recital 61), but allow member states to opt for accrediting alternative providers of sustainability assurance “to create a more open and diversified audit market”, under the pre-condition of a level playing field, in particular “as regards training and examination, continuing education, quality assurance systems, professional ethics, independence, objectivity, confidentiality and professional secrecy, appointment and dismissal, the organisation of the work of independent assurance services providers, investigations and sanctions, and the reporting of irregularities”.

One of our fundamental concerns with the proposed IESSA is that it does not apply the same requirements to professional accountants / auditors and to other providers of sustainability assurance. Austria will most likely make use of the member state option to accredit alternative providers of sustainability assurance, and we understand that uniform requirements in terms of professional ethics and independence are of utmost importance to both legislators and oversight bodies, as they are to us.


As iwp concurs with the EU legislators’ view that the auditor is best placed to also provide assurance on sustainability reporting, also based on our own research and analysis, we strongly oppose to the proposed approach to address putative independence issues arising from the sustainability assurance practitioner also auditing the client’s financial statements. In

our view, it is a fatal misconception that providing independent assurance on two different report could result in an independence threat.

Finally, we note that the proposed requirements and application materials are prescriptive and complex and may leave much room for misunderstanding and misinterpretation by professionals that do not have the long-standing experience that professional accountants having from dealing with Parts 1-4. Also, we see a need for customising, considering sustainability information and reporting specifics.

We thank you for the opportunity to comment. For further information on this letter, please contact dorotea.rebmann@iwp.or.at.

Sincerely,



Dorotea-E. Rebmann
President

Annex – Requests for Specific Comments

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

We agree that the ethical standards for sustainability, especially for assurance, should be profession-agnostic.

The Code with proposed revisions treats professional accountants and other sustainability assurance providers differently; for example, other sustainable assurance providers who perform professional activities and have professional relationships not covered by proposed Part 5, paragraph 5100.2b(b), are only encouraged to apply the general conduct provisions of Parts 1 to 4B of the IESBA Code.

We agree that sustainability assurance engagements must be subject to equivalent, not the same, standards for ethical behaviour and independence as those that apply to financial statement audits; however, we believe that taking the extant Code as a blue-print is not the right approach to achieving this. Concepts and expectations from an independence perspective in a sustainability assurance engagement are not necessarily the same as for an audit, for which the detailed rules have been refined over decades following observations in practice which may not be valid for sustainability assurance. Consequently, we would be in favour of a lean, principle-based approach, based on a thorough analysis of the sustainability assurance specifics.

For example, the list of non-assurance services covered in Sect. 5600 might be substantially reduced. Just for illustration purposes: It is hard to conceive under which circumstances a valuation for tax purposes to a sustainability assurance client might affect the records underlying the sustainability information or the sustainability information on which the firm will express an opinion (5604.17 A1). A much more relevant scenario, which is not covered explicitly, might for example be advice on measuring or estimating emissions, on developing strategies to reduce emissions to net zero by 2050, to develop policies and metrics for sustainability matters that later need to be reported etc.

Furthermore, the ethics and independence standards for both sustainability assurance and audit engagements need to respect, in our view, legislative decisions made. For illustration and non-exhaustive:

- Where law requires those charged with governance (TCWG) to establish a reporting system and have the necessary knowledge and skills to analyse the permissibility of

a non-audit/assurance service and form an independent opinion, a requirement for the auditor or assurance provider to provide his analysis of the impact of the provision of the service on the firm's independence (R5600.22) unduly influences TCWG.

- If law clearly stipulates the scope and basis of accounting for the fees to the auditor/assurance provider to be disclosed by the client, requiring the auditor to discuss with TCGW the benefit of disclosing fees, in addition, in a different manner (R5410.30) ignores that a. such additional information does not increase transparency but adds confusion to the reader and b. in a two-tier governance system, TCGW may legally not be in the position to initiate additional disclosure.
- If the legislator takes the view that a familiarity threat arising from long association of personnel is at an acceptable level in a combination of roles in financial audit and sustainability assurance, or that such familiarity threat is generally at an acceptable level for sustainability assurance compared to the implications of strict rotation requirements on the local audit market, such restrictions should not be introduced through the back-door of the private Code, thus undermining the democratically legitimised prerogative of legislative to define public interest, or putting a substantial burden upon those willing to comply with the Code to continuously navigate between different and conflicting rule sets.

We encourage aligning terminology to the maximum extent possible with IAASB.

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?

Clarity and conciseness: iwp represents its members who are certified auditors. From supporting our members in questions arising around interpreting and applying, to the extent allowed under applicable laws, the extant Code, we have doubts to what extent proposed Part 5 is capable of being understood and applied by sustainability assurance providers who are not professional accountants.

Implementability and enforceability: We would welcome revisions being made to the ED to the effect that it does not conflict with legislation in Europe or exceeds the existing legal requirements but supports uniform implementation and operationalisation. See Q1 above.

Definition of Sustainability Information

3. Do you support the definition of “sustainability information” in Chapter 2 of the ED?

From a ESRS perspective, we miss risk or opportunities arising *from* a sustainability matter to be reflected in the definition. Also, we wonder whether such disclosures as for example required under the EU Taxonomy Disclosure Delegated Act (Disclosures Delegated Act (EU) 2021/2178) would be covered by the definition.

Scope of Proposed IESSA in Part 5

4. The IESBA is proposing that the ethics standards in the new Part 5 (Chapter 1 of the ED) cover not only all sustainability assurance engagements provided to sustainability assurance clients but also all other services provided to the same sustainability assurance clients. Do you agree with the proposed scope for the ethics standards in Part 5?

Yes, we agree that Part 5 should also cover other services provided to the same entity. However, as already noted above, IESBA should follow a principles-based and sustainability-information specific approach setting general requirements in section 5600.

5. The IESBA is proposing that the International Independence Standards in Part 5 apply to sustainability assurance engagements that have the same level of public interest as audits of financial statements. Do you agree with the proposed criteria for such engagements in paragraph 5400.3a?

In our view, audits of financial statements (not any audits) meeting the criteria proposed in paragraph 5400.3a and sustainability assurance engagements meeting those criteria broadly have the same level of public interest.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED?

Whereas we have no concerns with respect to the examples listed in paragraph 5270.3 A2, we miss what we consider to be the biggest threat to the reputation of the profession, ie the threat to accept wording that does not objectively represent positive and negative impacts or progress made, or to accept a substantial amount of non-relevant information to be included in a sustainability report to disguise negative messages – in a nutshell, all sorts of verbal greenwashing.

NOCLAR

7. Do you support the provisions added in extant Section 360 (paragraphs R360.18a to 360.18a A2 in Chapter 3 of the ED) and in Section 5360 (paragraphs R5360.18a to 5360.18a A2 in Chapter 1 of the ED) for the auditor and the sustainability assurance practitioner to consider communicating (actual or suspected) NOCLAR to each other?

We believe that paragraph 5360.5 A2 (and, correspondingly, 360.5 A2) should be reduced to those areas which are relevant for sustainability reporting or financial reporting, respectively.

Also, it should be clarified that the practitioner is not expected to search for cases of NOCLAR and that section 5360 deals only with (actual or suspected) NOCLAR that the practitioner becomes aware of in the course of providing services to the sustainability assurance client.

R5360.8 should clearly state that, in some jurisdictions where there are legal or regulatory provisions governing how sustainability assurance practitioners should address non-compliance or suspected non-compliance, such legal or regulatory provisions prevail.

8. Do you support expanding the scope of the extant requirement for PAIBs?

Yes, we support the proposed revisions that require the senior PA to determine whether to disclose (actual or suspected) NOCLAR to the external auditor and sustainability assurance provider, although we don't see any practical relevance in our legal environment.

Determination of PIEs

9. For sustainability assurance engagements addressed by Part 5, do you agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements?

Based on the dialogues held by us, we do not share the view that stakeholders have heightened expectations regarding the independence of a firm performing a sustainability assurance engagement for a public interest entity (5400.15) or, vice versa, lower expectations regarding independence if the client is not a public interest entity.

The PIE definition is linked to capital markets and reflects the importance of financial statements of capital markets-oriented entities to the economy in general (due to the size and relevance such entities typically have), the public interest in functioning capital markets, as well as the individual interest of shareholders and bond holders. The stakeholder spectrum for sustainability reports is much broader, ranging from NGOs and consumers to those financing SMEs in our environment, ie banks, and relevant impact is not driven by size in terms of financials. Thus, we don't consider a listing of equity or debt etc to be an appropriate criterion for differentiating ethical requirements for sustainability assurance.

Correspondingly, the CSRD or its implementation into Austrian law do not differentiate between PIEs and non-PIEs for the independence and other ethical requirements for sustainability assurance. We consider such differentiation as a considerable threat to acceptance of Part 5.

Group Sustainability Assurance Engagements

10. The IESBA is proposing that the International Independence Standards in Part 5 specifically address the independence considerations applicable to group sustainability assurance engagements.

(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 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)?

(ii) Do you agree with the proposed requirements regarding communication between the group sustainability assurance firm and component sustainability assurance firms regarding the relevant ethics, including independence, provisions applicable to the group sustainability assurance engagement?

(iii) Do you agree with the proposed defined terms in the context of group sustainability assurance engagements?

In principle, we agree that the group engagement partner should be responsible for communicating relevant ethics, including independence requirements, to component sustainability assurance firms and other practitioners whose work is used for group engagement purposes.

Proposed section 5405 is highly complex and requires establishing monitoring systems which we understand do not exist to date at potential providers of sustainability assurance that are not traditional audit networks and will take years to be built up.

Extant section 405 for financial audits only recently came into force, and our members report tremendous interpretation and implementation issues especially where component and group auditors do not belong to the same network. We believe that establishing corresponding requirements in a new profession-agnostic standard will neither foster acceptance nor result in consistent application in practice.

We strongly suggest that, for the time being, IESBA should limit this Section to high-level requirements. Performance standards, such as ISSA 5000 or European Sustainability Audit Standards, are expected to provide more detailed guidance on how to perform a group sustainability assurance engagement.

Using the Work of Another Practitioner

11. Section 5406 addresses the independence considerations 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 provisions set out in Section 5406?

Section 5406 requires the sustainability assurance provider to request from the "other practitioner" to confirm compliance with Part 5 of the Code. It does not state what the sustainability assurance provider should do if such request remains unanswered – which we consider to be the most likely situation.

Accredited conformity assessment bodies, certification bodies and other experts play an important role in the field of technical environmental information in our region. They have no incentive to answer such request, and we see a high practical barrier for the sustainability assurance provider to explain all the requirements of Part 5 to be met to such practitioners in an understandable manner in the first place.

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?

Yes.

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?

No. First of all, it does not appear to be clear what "at the value chain entity" means – the physical location of the sustainability assurance team performing work can't possibly determine the level of independence requirements. We also note that the term "value chain entity" seems to envisage legal entities, whereas the value chain may also comprise self-employed persons and any type of informal organisations.

Also, we consider it practically impossible to monitor compliance with R5407.3.

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?

No. We can't conceive a situation where 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.

Also, in a globalised world, sustainability assurance clients may have hundreds or thousands of value chain entities; it will be virtually impossible to both identify all of them including their related entities and to ensure that there is no relationship between a network and all of these value chain entities or any individuals, taking into account that the sustainability assurance provider has no contractual relationship with these entity and that they are beyond the organisations boundaries of its client.

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)?

We agree with the fundamental principles outlined in Section 5600.

We do not agree with paragraph 5600.7 A1 where it stipulates that, if there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to sustainability assurance clients, "firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions". It is self-understood that firms providing non-assurance services need to comply with relevant laws and regulations. The requirement to comply with the more stringent provisions contradicts, in a well-regulated environment, the decisions, intentions and considerations of the legislator and hinders acceptance of the Code as such.

We also disagree with the communication requirements with TCWG of PIEs to the extent it contradicts the legally established allocation of responsibilities between TCWG and the auditor/assurance provider, as outlined in our cover letter.

16. Subsections 5601 to 5610 address specific types of NAS.

- (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?

No, we disagree with covering specific types of NAS and believe that overarching principles set under Section 5600 should be sufficient.

For example, Paragraph R5600.17 sets a general requirement that the sustainability assurance provider shall not provide a non-assurance service to the same entity that is a PIE if the provision of that service might create a self-review threat. This is redundantly repeated for specific types of NAS without adding value.

We also note that the spectrum of NAS specifically mentioned in the extant Code has been developed in response to evolving practices and needs for financial audits. Sustainability reporting practices are only beginning to evolve. We suggest that IESBA considers to add requirements for specific NAS provided by sustainability assurance providers over time.

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)?

No, we fundamentally disagree with IESBA's view that implies that two different assurance engagements provided to the same client could create a threat to independence for one another. Two different assurance engagements provided to the same client cannot, conceptually, create any threat to independence for one another since they both require to be independent. This was discussed in depth in the course of the EU legislative process, and both the Council and the Parliament concluded that providing both financial audit and sustainability assurance does not create any independence threat.

This is also underpinned by the EU legislators' considerations with respect to the audit fee cap in the EU (CSRD, recital 78): "To ensure the independence of the statutory auditor when carrying out a statutory audit, that Regulation establishes a limit concerning the fees for other services that the statutory auditor can obtain. It is important to clarify that the assurance of sustainability reporting should not count in the calculation of that limit."

For the reasons outlined in our response to Question 9, we also don't agree with differentiating whether the financial audit and sustainability assurance client is a PIE or not, for example in the context of rotation requirements to address threats from long association with the client.

Familiarity threats in financial audit primarily arise from "operational blindness" after having been responsible for the audit for a number of years. This does not apply in the – presumably rare – cases where a sustainability auditor moves to financial audit or vice versa as these are different disciplines with different counterparties at the client and under different standards; such cases need to be assessed under their individual circumstances under general rules anyway. The much more relevant situation for sustainability assurance will be that the sustainability assurance provider may have been advising the client in sustainability related matters and establishing sustainability reporting or elements of it from scratch over a number of years before the start of the engagement period.

Other Matters

18. Do you believe that the additional guidance from a sustainability assurance perspective (including sustainability-specific examples of matters such as threats) in Chapter 1 of the ED is adequate and clear? If not, what suggestions for improvement do you have?

We are under the impression that Chapter 1 is still largely influenced by thinking from a financial audit perspective (“custody of client assets”, “tax planning”). We suggest to review the examples provided in this Chapter with a view to consider if they are indeed relevant from a sustainability assurance perspective and add others that relate to sustainability reporting. IESBA may want to take into account that sustainability reporting to a large extent comprises verbal information, such as information on governance, strategy, plans, actions, business models etc.

19. Are there any other matters you would like to raise concerning the remaining proposals in Chapters 1 to 3 of the ED?

IESBA should consider transitional provisions for specific sections.

Scope of Sustainability Reporting Revisions and Responsiveness to the Public Interest

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 suggest that IESBA should understand the need and appetite for such expansion before starting the workstream. In our local environment, we don't see preparers of sustainability information outside business, and, based on the experience that professional accountants in business don't even take notice of the existence of the extant Code, we would expect little interest by preparers of sustainability information in business, nor do we see a real need.

21. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

No.

Proposed Revisions to the Extant Code

22. Do you agree that the proposed revisions to Parts 1 to 3 of the extant Code in Chapter 4 of the ED are clear and adequate from a sustainability reporting perspective, including:

(a) Proposed revisions to Section 220?

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information?

(c) Other proposed revisions?

Yes.

23. Are there any other matters you would like to raise concerning the proposals in Chapter 4 of the ED?

No.

Effective Date

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?

We prefer IESBA to take sufficient time to address the material issues and concerns raised, to seek feedback from sustainability assurance practitioners in order to identify relevant sustainability reporting and assurance-specific matters, to ensure the appetite of alternative sustainability assurance providers to adopt the code and to ensure full compatibility with legal requirements in the EU.