



Chamber of Financial Auditors
of Romania

No. 1526 / 13.05.2024

Chamber of Financial Auditors of Romania (CFAR) Response to the IESBA's Exposure Draft on *International Ethics Standards for Sustainability Assurance (IESSA)*

As a professional organization, CFAR is responsible for monitoring the quality of the audit activity (except the statutory audits) performed by its members, financial auditors, as it is provided by Romanian Law.

In the last years, the Sustainability Assurance became a priority for CFAR, in order to provide to its members a good understanding and to prepare an appropriate implementation of the CSRD requirements.

Our general considerations determine a close approach between IAASB requirements and specific ethical behavior in the context.

Therefore, we congratulate IESBA on developing a high-quality draft standard, that provides an appropriate global and European baseline for sustainability assurance engagements.

General comments

Having in view Explanatory Memorandum 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, as well as the ED,

we do agree with

- the new structure proposed,*
- maintaining the same language / wording / coherence with IAASB,*
- ensuring that the standard serves the European public interest.*

On the other hand, we do consider to take into account some specific aspects:

- the consistency of glossary / terminology translation across different jurisdictions should be a proactive measure to prevent different interpretations of the same term, that would lead to different implementation;*
- will the standard be sufficiently scalable to be used by Small and Medium Practices (SMPs) in Small and Medium-sized Enterprises (SMEs) sustainability reporting and assurance engagements, even in cases where the reporting and the assurance are voluntary? Could there be a specific approach tailored for SMEs and SMPs such as compact / distinct*

paragraphs for SMEs and SMPs? Even if such provisions exist in ED, it would be useful for them to be clearly identified as demarcated paragraphs;
- the implementation process needs to have a transition period, and actions should be supported by IESBA, such as communications, guidelines, webinars focused on a good understanding and implementation.

SPECIFIC COMMENTS [Ref: MEMORANDUM]

Sustainability Assurance

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]

We agree that the proposals are equivalent to the ethics and independence standards for audit engagements in the extant Code.

(b) Profession-agnostic and framework-neutral? [See paragraphs 21 and 22 of this document]

We agree that the proposals are profession agnostic and framework neutral.

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? [See paragraph 23 of this document]

We agree that the proposals in Chapter 1 of the ED are responsive to the public interest.

We propose to add the definition of scalability:

"Scalability, including the proportionality to the standard's relative impact on different stakeholders, e.g., how a standard addresses the audit or assurance needs of small and medium sized enterprises (SMEs) as well the needs of complex, listed entities."

Such provision will support the implementation for different sized enterprises.

Definition of Sustainability Information

3. Do you support the definition of "sustainability information" in Chapter 2 of the ED? [See paragraphs 24 to 26 of this document]

*We do consider that the definition should be reformulated as "Information about the **impacts, risks and opportunities**" as a common formulation, instead of "Information about the opportunities, risks or impacts".*

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? [See paragraphs 30 to 36 of this document]

We agree with the proposed scope for the ethics standards and including in Part 5 all other services provided to the same sustainability assurance clients.

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? [See paragraphs 38 to 43 of this document]

We agree with the proposed criteria for such engagements.

Structure of Part 5

6. Do you support including Section 5270 in Chapter 1 of the ED? [See paragraphs 46 to 48 of this document]

We support the inclusion of Section 5270 "PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES", considering compliance with fundamental principles and conceptual framework.

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? [See paragraphs 56 to 67 of this document]

We support the provisions added in extant Section 360 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.

8. Do you support expanding the scope of the extant requirement for PAIBs? (See paragraphs R260.15 and 260.15 A1 in Chapter 3 of the ED) [See paragraph 68 of this document]

We support expanding the scope of the extant requirement for PAIBs.

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? [See paragraphs 80 to 85 of this document]

We agree with the proposal to use the determination of a PIE for purposes of the audit of the entity's financial statements.

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. [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?

We support the IIS in Part 5 specifically addressing group sustainability assurance engagements.

(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)?

We 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.

(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? [See paragraph 88 of this document]

We 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 (for example, “group sustainability assurance engagement” and “component”)?

We agree with the proposed defined terms in the context of group sustainability assurance engagements.

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? [See paragraphs 93 to 101 of this document]

We agree with the proposed independence provisions set out in Section 5406.

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]

We support the proposed definition of “value chain” in the context of sustainability assurance engagements., as it enhances transparency and facilitates the effective application of ethical standards. The proposed definition acknowledges that the reporting boundary for sustainability information may differ from that of financial statements, and that material value chain entities included in sustainability reporting may present threats to the firm’s independence.

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]

We support the provisions in Section 5407. We agree with the proposed requirements outlined in paragraphs 106 to 110, which provide guidance on various scenarios that may arise when conducting assurance work involving value chain entities.

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?

Yes, we do agree that where a firm uses the work of a sustainability assurance practitioner 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]

We support the approach and guidance proposed for identifying, evaluating, and addressing the threats, but in the limits that such threats be addressed on a "knows or has reason to believe" principle basis. It is essential for Part 5 of the International Code of Ethics for Professional Accountants to appropriately address these threats to maintain the integrity and credibility of sustainability assurance engagements. However, we acknowledge the need for clarity regarding the factors to evaluate threats and potential safeguards in Section 5700. While the 'knows or has reason to believe' principle is a well-established concept, additional guidance or examples of factors to consider could enhance the effectiveness of the approach and facilitate consistent application by practitioners.

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]

We agree with the provisions in Section 5600.

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?

We 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?

We do not believe there are any other NAS that should be addressed.

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]

We agree with 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.

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 believe that the additional guidance from a sustainability assurance perspective is sufficient.

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

We do not have any other matters to raise concerning the remaining proposals in Chapters 1 to 3.

Sustainability Reporting

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? [See paragraphs 133 to 135 of this document]

We do consider that IESBA could approach its new strategic work stream on developing guidelines and further communications.

21. Do you agree that the proposals in Chapter 4 of the ED are responsive to the public interest, considering the Public Interest Framework's qualitative characteristics? [See paragraph 138 of this document]

We agree that the proposals in Chapter 4 of the ED are responsive to the public interest, but it is necessary to include the definition of Scalability (see Q2).

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? [See paragraphs 139 to 141 of this document]

We agree that the proposed revisions to Section 220 are clear and adequate from a sustainability reporting perspective.

(b) Proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information? [See paragraphs 143 to 153 of this document]

We agree that the proposed examples on conduct to mislead in sustainability reporting, value chain and forward-looking information are clear and adequate from a sustainability reporting perspective.

(c) Other proposed revisions? [See paragraph 155 of this document]

No comments

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?

Having in mind that in accordance with the CSRD, many companies are getting ready to prepare and publish sustainability reports, and have these reports subject to limited assurance, in 2025 for their 2024 financial year, the Effective Date for IESBA proposals should be aligned with the effective date of ISSA 5000.

The main concern is : shall the entities (small, medium and large) and the practitioners (including SMPs) be prepared for this challenge?

We hope our answer will be of support and we stand open for any necessary clarifications.

Best regards,

General Secretary,

Daniela ȘTEFĂNUȚ

