

21 November 2023

Re: Approval, before 1 January 2026, of Statutory Auditors to carry out assurance engagements of sustainability reporting

Dear CEO,

Background

The Irish Auditing and Accounting Supervisory Authority (IAASA) is the competent authority for the oversight of statutory auditors in accordance with the European Union Directive 2006/43/EC, as amended by Directive 2014/56/EU (Audit Directive), and Regulation (EU) No 537/2014 (Audit Regulation). The European Union Directive 2022/2464 (CSRD) amends the Audit Directive and Audit Regulation as regards corporate sustainability reporting.

IAASA notes that the process for transposing the Corporate Sustainability Reporting Directive (CSRD) into Irish legislation is ongoing. IAASA further notes that the Department of Enterprise, Trade and Employment (DETE) has made public its policy intentions with regard to the implementation of CSRD. It is expected that the first group of companies who will be required to report under CSRD will report for the financial year ended 31 December 2024. Such companies are required to obtain assurance on this reporting.

Transposition is not yet complete, therefore neither IAASA nor the Recognised Accountancy Bodies (RABs) have the requisite powers to carry out any functions in regard to sustainability reporting and assurance. However, IAASA is of the view that given the timelines involved, it is important for all stakeholders to be actively preparing for the implementation of the legislation. IAASA notes that it is likely that a number of statutory auditors will require approval to carry out assurance engagements of sustainability reporting during 2024, given that assurance work will likely commence in advance of the financial year end.

To that end, IAASA writes this letter to CEOs of RABs to set out IAASA's current expectations in relation to the approval of extant statutory auditors (SAs) to carry out assurance engagements of sustainability reporting, referred to in this letter as Sustainability Assurance Service Providers (SASPs). IAASA is engaging with DETE, Committee of European Audit Oversight Bodies, the European Commission and peer regulators, among others, and as such, reserves the right to alter expectations where necessary.

The transitional arrangements are the most immediate matter relating to the CSRD requirements; however, we note that there are extensive further requirements for RABs which will in due course be the subject of IAASA guidelines. The CSRD implementation is a significant project and RABs need to ensure that they will be in a position to comply with those extensive further requirements that will ensue.

Legal requirements re statutory auditors approved before 1 January 2024 and persons undergoing the approval process for statutory auditors on 1 January 2024

Article 3(9) of CSRD notes that SAs approved on or before 1 January 2024 as well as those who complete the approval process by 1 January 2026 are not subject to the requirements to undertake a written exam and undergo practical training. Article 3(9) goes on to note that Member States shall ensure that such SAs approved before 1 January 2026 who wish to be approved as SASPs acquire the necessary knowledge of sustainability reporting and assurance of sustainability reporting, including at least the following subjects through continuing education: -

- a) Legal requirements and standards relating to the preparation of annual and consolidated sustainability reporting;
- b) Sustainability analysis;
- c) Due diligence process with regard to sustainability matters and
- d) Legal requirements and assurance standards for the sustainability assurance reporting (referred to in Article 3(15))

IAASA expectations

Below is a list of IAASA expectations regarding matters which have arisen in discussion with various stakeholders

1. IAASA expects that RABs require anyone seeking approval to complete an application form at the time of seeking approval.
 - While IAASA notes that the CSRD does not specifically require an application form, it would seem to be the most effective manner in which an individual can express interest and provide the relevant information which will be needed by the body to make a decision in regard to the approval.
 - For the avoidance of doubt, IAASA does not believe that it would be appropriate for all statutory auditors to be automatically granted approval to be SASPs.
2. IAASA expects that RABs put in place an effective internal system to review applications and either approve or refuse the applications. The RAB's assessment of applications as well as its decision and reasons should be clearly documented in accordance with IAASA's General Guideline D4.
3. IAASA expects that part of the application form requires applicants to provide evidence that they have acquired the necessary knowledge of sustainability reporting and assurance of sustainability reporting as set out above.
 - IAASA notes that the CSRD does not explicitly require that the necessary knowledge be obtained prior to the granting of approval, however, IAASA notes that it is consistent with ethical requirements that apply to SAs to obtain the necessary knowledge in advance of seeking approval. Additionally,

IAASA believes this is the most effective mechanism for Ireland to ensure that the knowledge is obtained prior to carrying out the assurance engagement.

- IAASA accepts the need to be pragmatic with regard to the structure of the methods used to acquire the necessary knowledge, given the timelines involved, the ongoing evolution of expertise in the area and the fact that any structured program would likely be best delivered and examined by those who would initially require the approval.
- Notwithstanding the above, IAASA expects that a minimum of 60 hours of study is expected, a portion of which should be structured.

4. IAASA expects RABs to put in place an effective internal system to ensure that, after approval as an SASP, if an individual surrenders their SA approval or has it revoked/suspended for any reason, that their approval as an SASP is automatically similarly surrendered, revoked, or suspended.

We hope that this letter clarifies IAASA's regulatory expectations and assists the RABs and statutory auditors in their preparations. We remain committed to ongoing engagement on these and any other matters arising.

Yours sincerely



Kevin Prendergast
Chief Executive

Email: kevin_prendergast@iaasa.ie