



An Roinn Fiontar,
Trádála agus Fostaíochta
Department of Enterprise,
Trade and Employment

Public Consultation on Member State Option to Introduce Independent Assurance Service Providers (IASPs)

Pursuant to Article 34 of Directive 2013/34/EU as inserted by Directive
2022/2464/EU (CSRD)

Response Template

As set out in the consultation paper, the Department of Enterprise, Trade and Employment is specifically seeking views on the Member State option to introduce a new category of independent assurance services provider pursuant to Directive 2022/2464/EU ('CSRD').

Respondents can comment generally on this Member State option at the end of the template and express any views specific to this option should they wish.

Please include your response in the space underneath the relevant option, to set out/ explain your views. Completing the template will assist with achieving a consistent approach in responses returned and facilitate collation of responses.

When responding please indicate whether you are providing views as an individual or representing the views of an organisation.

Name(s):	Jane Massy & Mary Kennedy <i>(views stated represent the views of the organisation listed below)</i>
Organisation:	SGS Ireland Limited
Email address:	jane.massy@sgs.com/mary.kennedy@sgs.com
Telephone number:	087 1657 442/ 087 112 7186

Respondents are requested to return their completed templates by email to CSRD@enterprise.gov.ie by the closing date of **Friday, 19 July 2024**.

Submissions should be sent by email to CSRD@enterprise.gov.ie

Please write '**response to public consultation on option to adopt Independent Assurance Services Provider**' in the subject line of the email.

Directive 2022/2464/EU ('CSRD') amends Directive 2013/34/EU ('Accounting Directive') by inserting a new paragraph 4 into Article 34. Paragraph 4 provides the following:

4. Member States may allow an independent assurance services provider established in their territory to express the opinion referred to in point (aa) of the second subparagraph of paragraph 1, provided that such independent assurance services provider is subject to requirements that are equivalent to those set out in Directive 2006/43/EC of the European Parliament and of the Council as regards the assurance of sustainability reporting as defined in point 22 of Article 2 of that Directive, in particular the requirements on:

- (a) training and examination, ensuring that independent assurance services providers acquire the necessary expertise concerning sustainability reporting and the assurance of sustainability reporting;
- (b) continuing education;
- (c) quality assurance systems;
- (d) professional ethics, independence, objectivity, confidentiality and professional secrecy;
- (e) appointment and dismissal;
- (f) investigations and sanctions;
- (g) the organisation of the work of the independent assurance services provider, in particular in terms of sufficient resources and personnel and the maintenance of client account records and files; and
- (h) reporting irregularities.

Question 1 – Do you support the proposal that Ireland adopts the Member State option to introduce, accredit, regulate, and monitor a new service provider – called an Independent Assurance Services Provider – to give an assurance opinion on sustainability reporting? Please give reasons for your preference.

SGS supports the proposal for Ireland to adopt the Member State option to introduce, accredit, regulate, and monitor a new service provider – named an Independent Assurance Services Provider (IASP).

Although this proposal refers to a ‘new service provider’, SGS along with other IASPs has already been providing ESG Assurance services for over 20 years and, as a result, has developed global and deep expertise in providing independent ESG Assurance services. IASPs (such as SGS) have proven themselves as significant contributors to the assurance domain and with respect to assurance on sustainability reporting, IASPs are robust players with extensive industrial knowledge and understanding of sustainability, demonstrating high-quality control in management audits, further strengthening their credibility in this field.

Some member states have already allowed IASPs to express statements, such as an opinion for the fulfilment of the requirements on sustainability reporting as long as the IASP is accredited and fulfils the requirements of Directive 2006/43/EC article 2.22 regarding training, quality assurance, ethics and resources. TIC (testing, inspection and certification) companies such as SGS are already widely recognised globally as independent assurance services providers (IASP), allowing them to assess and verify sustainability claims alongside auditing bodies. Such providers, if allowed to operate in Ireland as approved

IASPS, will greatly enhance the capacity of sustainability reporting for qualifying undertakings trading in and from Ireland.

Not triggering this option could hamper the Directive's goal of opening the market for the assurance of sustainability reporting. It would mean that companies that are subject to CSRD will be obliged to use a limited number of audit firms for their assurance reporting needs. This situation will most probably lead to high transaction and financial costs to most companies, including the SMEs that will also be subject to CSRD reporting obligations in the coming years.

Reasons to allow IASPs to operate in Ireland:

1. Cost.
 - a. There is a substantial difference in cost between audit engagements and assurance engagements. In the case where a company in the past has used the same audit firm for financial and sustainability reporting (for example those firms that already publish annual reports and TCFD reports), the audit engagement can represent more than 95% of the cost of the assurance engagement. With such a disproportion, there is a risk that the audit firm may be tempted to minimise the sustainability assurance engagement or more likely, significantly raise the cost of the CSRD disclosure and reporting assurance.
 - b. Anecdotal evidence suggest that the large dominant accounting and audit firms are doubling their client costs for ESG Assurance statements and that will continue with the requirement to report compliance with CSRD.
 - c. With the exception of the large dominant accountancy and audit firms, most accounting practices in Ireland (serving the vast majority of Irish business especially CSRD qualifying SMEs) do not have the capacity, and will struggle to invest, in ESG Assurance expertise. By working in collaboration with IASPs such as SGS, these accounting and audit forms will be able to provide their clients with the full CSRD service at a reasonable cost.
2. Open competition and availability of services

Opening the ESG/CSRD assurance market to IASPs provides increased competition in the market and the opportunity as noted above for joint client services with the majority of accounting and audit practices in the country. At present, while there are a number of CPD ESG related training courses available, ESG verification and auditing is absent from existing curricula for the accounting/auditing profession. Developing the knowledge and skills and building experience in ESG Assurance including assessment and verification of disclosure data and qualitative statements required under CSRD will take an individual at least two years (to build up ESG audit experience) and the human resources pipeline needed to meet market demand will only increase substantially as the scope of undertakings required to disclose and report under CSRD increases in the coming years.

While this may change in future, for the short to medium term there is a huge gap in skills and experience which can be addressed by IASPs.
3. Quality and experience
 - a. SGS is accredited according to ISO/IEC 17029. This ensures confidence in the technical expertise for the validation of forecasts and simulations for sustainability reporting as well as for the confirmation of historic data. Based on the applicable standard, the external and technical accreditation of sustainability assurance service providers is guaranteed. It removes the risk of companies' using non-accredited sustainability auditors for a matter that requires extensive technical expertise. SGS, along with other

IASPs, already has personnel with proven expertise and technical capacity to verify all sustainability claims as required for an IASP under CSRD through inspections, laboratory controls, calculations, on-site visits (globally through its 140 offices worldwide) and other specialized services. Particularly SGS, as is the case with other IASPs, has longstanding experience in offering services related to sustainability, such as the control of technical installations, energy efficiency, health and safety, information security and compliance management. These services also contribute to supply chain due diligence and circular economy.

- b. SGS is licensed (License Number: 000-8) according to the AA1000 Assurance Standard (AA1000AS v3) which is the leading methodology used by sustainability professionals worldwide for sustainability-related assurance engagements, to assess the nature and extent to which an organization adheres to the AccountAbility Principles. The AA1000AS v3 is a next generation standard for sustainability assurance and is administered through an e-licensing system for AccountAbility-licensed assurance providers.
<https://elicensing.accountability.org>

Question 2 – Do you voluntarily obtain the services of a person, other than a statutory auditor, for an assurance opinion on sustainability reporting? Please give reasons for your preference.

SGS has been carrying out ESG assurance services as an IASP for 20 years with over 300 clients across the world including Ireland. It also has an 50%+ return rate year after year for its assurance services. See below Q 7.

Clients cite expert ESG knowledge and credibility, the wide reference base to support different disclosure standards and frameworks such as GRI, IFRS, TCFD, SASB (enabling, where relevant, fast gap analysis for those clients already reporting under these standards and frameworks in the transition to CSRD); rigor of verification and excellence of verifiers, reasonable cost as the reasons for using and returning annually to IASPs. Assurance statements are accompanied by detailed reporting to the client to add significant value in enabling future improvement in disclosure. This has particular relevance for CSRD given the explicit requirement for policy, action, metrics and targets into the short, medium and long term in relation to all client material topics.

Question 3 – Do you have any views on how and by whom Independent Assurance Services Providers established in Ireland should be accredited, supervised, and monitored?

Noting that France opted to allow statutory auditors and IASPs accredited by the French Accreditation Committee (COFRAC) to carry out the assurance of sustainability statements, we propose that it could be the responsibility of Irish National Accreditation Board (INAB) to accredit IASP organisations in Ireland through ISO17029. In the UK, UKAS has expanded their accreditation to verification and validation (in which sustainability assurance falls) bodies. In UK there is also considerable collaboration between the FRC (Financial Reporting Council) and UKAS and an agreement is anticipated in the near future with FRC and UKAS both being recognized as authorized for accreditation or as quality reviewers for sustainability assurance engagements.

Question 4 – Do you have any views on the capacity of Independent Assurance Services Providers to comply with equivalent requirements to those set out in the Directive 2006/43/EC ('Audit Directive')?

The capacity and capability of IASPs will fully meet the requirements of the Audit Directive if the IASP organisation has been accredited to similar schemes, such as ISO 19011 and ISO 17029. If an IASP (such as SGS) has established quality systems for delivery of services as part of their accreditation process, integrated methods to ensure independence and proven competence of individuals conducting assurance services, then the comprehensive requirements for auditing practices, including independence, objectivity, confidentiality, professional competence and quality control should in principle already be proven.

Question 5 – Do you have any views on how Ireland (being the host Member State) should supervise the assurance of sustainability reporting carried out by Independent Assurance Services Providers established in another Member State?

This could be done through supervising the quality control procedure of the IASPs in Ireland, managed by, as noted below, the relevant authority and which we suggest would be INAB. The Directive proposes that Member States accept the other member state's processes for accreditation and supervision of IASPs based within them. For example, if an IASP based in France is accredited in France (via National Accreditation Body) to conduct CSRD assurance then Ireland should accept that accreditation as sufficient to sign them off to be able to conduct same assurance in Ireland. In the case of IASPs such as SGS with subsidiaries in every member state, there can be accredited subsidiaries in more than one member state and the assurance activity is carried out by accredited subsidiary and the Assurance Certificate issued by them.

Question 6 – If you fall within scope of the CSRD, would you be likely to use an Independent Assurance Services Provider (other than a statutory auditor) for your sustainability assurance? Please give reasons for your preference.

Not surprisingly, SGS believe it would be of significant importance to undertakings falling under CSRD reporting, to have the option of using IASPs.

Firstly, IASPs have demonstrated high-quality service provision in their respective fields. They have a proven track record of delivering reliable and comprehensive assurance services, which is crucial for effective sustainability reporting.

Secondly, IASPs possess strong technical expertise. Their proficiency in understanding complex sustainability issues, along with their ability to assess and verify sustainability data, makes them well-equipped to provide robust assurance services. This technical acumen enables them to identify both areas of strength and potential risks, providing a thorough and balanced view of an organisation's sustainability performance.

Lastly, the cost-effectiveness of employing an IASP is another significant factor. While maintaining high standards of service, IASPs often offer more competitive rates than statutory auditors. This affordability does not compromise the quality of assurance, making them an attractive choice for sustainability assurance.

Therefore, considering these factors, we are fully confident that using an Independent Assurance Services Provider for sustainability assurance would be a beneficial decision.

Question 7 – Do you have any views on whether the introduction of a new sector for assurance on sustainability would benefit or harm Irish business and employment or the Irish economy?

We believe that the introduction of a new sector for assurance on sustainability would be beneficial to Irish business, employment, and the overall economy. This is primarily because it would create a new market within the Irish business landscape for assurance providers to work with statutory auditors. This could lead to increased competition, geographic spread, innovation and diversity within the industry.

Additionally, the creation of this new sector could potentially generate employment opportunities. As more businesses seek sustainability assurance services, there would likely be an increased demand for professionals with expertise in this area. This could lead to job creation and skills development within the Irish workforce.

Please include your views on any other issues that you might see as relevant to Article 34(4) and (5).

We believe the answer to avoiding higher costs, ensuring widespread assurance service provision and access to specialist expertise and experience lies in collaboration between IASPs and established accounting/audit firms. This builds on the existing complementary organisational capacities – with statutory audit sector expertise for ‘financial materiality’, combined with IASP (such as SGS) with their expertise in assurance, testing, inspecting and verification to support disclosure and reporting for ‘impact materiality’, offering a comprehensive value-added and more competitive service to the market.

SGS along with other leading IASPs already provides

- Assurance services to companies’ sustainability reports and climate disclosures
 - Important technical expertise
 - Verified information to investors and consumers
 - Validated projects and plans for transition

- Corporate Due Diligence services
 - Supply Chain Audits of all generally accepted social & environmental schemes and certifications
 - Verification of implementation of contractual agreement to address adverse effects to sustainability
 - Assurance of company policies that support transition to sustainability

- EU’s Taxonomy for Sustainable Activities
 - Verification and conformity assessment services for activities to be considered as sustainable

Our verifier, assessor and auditor resources, registered and deployed for assurance engagements, are individuals with high academic credentials with certification to carry out audits under one or more of ISO standards. These resource persons are trained internally as per Assurance Standard and relevant national, regional and global ESG / sustainability standards / Frameworks. They also go through controlled assessments, where a high pass mark has been set for certification for CSRD disclosure assurance engagements. A programme of continuous professional development (CPD) managed inhouse at SGS, ensures they are kept abreast of the current developments and knowledge. We also maintain a comprehensive register of approved assessors who are equipped to be deployed for assurance engagements.

Our inherent capabilities as established practitioners of assurance and certification audits around integrated management systems within all five quadrants of CSRD focus; environmental, social, governance, human rights & integrity have created for us a niche engagement space within the CSRD disclosure assurance regime. Our expertise and experience around the focus areas are briefly further explained below.

Environmental issues – SGS is equipped to carry out verification & assurance engagements as per globally accepted standards for climate change critical energy usage and GHG emissions. We also have extensive experience around other environmental issues surrounding, water & effluents, waste, recycling, resourcing supply chains and resource usage.

Social audits and assurance – We have been an accredited supplier for social systems audits for a considerable period of time and the experience and expertise that has been accumulated through our knowledge management system, surpasses most probable assurance service providers.

Corporate Governance – our experience in engaging the top management including the board, around matters concerning oversight, strategic and policy direction, control and monitoring has enabled us to achieve professionally accepted scrutiny at all levels of the organisation. Also, the cross functional nature of audits and certifications we have been carrying out has equipped us with an unmatched knowledge around different functions in organisational settings in diverse industrial backgrounds. Our experience in auditing integrated management systems is the ideal setting for assurance of CSRD related disclosures that are developed around overarching sustainable development principles and corporate value addition objectives.

In addition, topics and focus areas in a CSRD delegated assurance engagement such as, human rights, bribery & corruption, grievance handling, diversity & inclusion, supply chain ESG compliance related risk management, human resource training & development, stakeholder engagements and policies, social impacts, affected communities and consumer issues have been audited by us and in-depth experience and expertise harnessed on both hard and soft skills required for such engagements.

Most of the disclosed information around the CSRD requirement is acknowledged and accepted to be qualitative in nature, requiring methods and capabilities of quantification to be applied for workable assertions to be made. Also, the assurance engagement and the conclusions require a high level of

supported human judgements made with independence, objectivity and impartiality to generate an acceptable output.

SGS is the world's leading testing, inspection and certification company. It is a leading member of the TIC Council which represents the Testing, Inspection and Certification sector. SGS provides independent third-party conformity assessment services - using technical experts to carry out impartial testing and evaluation, audits, inspections (both in-person and remote), and other services on products, systems, or personnel against various private, national, and international standards and regulations. SGS services support virtually all economic operations ranging from automotive, commodities, consumer, environmental, food, life sciences, industrial, maritime, medical, oil & gas, petrochemical, leisure, education systems, compliance, trade assurance and many more.

THANK YOU FOR YOUR RESPONSES