

## PIOB’s Public Interest issues: IESBA projects

The PIOB’s recommendations are based on the proposals discussed by the IESBA as of October 2020.

For further information and details about the IESBA projects, please refer to the IESBA website: <https://www.ethicsboard.org/consultations-projects>

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Non-Assurance Services (NAS)
<p><b>The PIOB expects a significant revision of the provision of NAS, ultimately addressing independence issues</b></p> <p>The PIOB expects a significant revision of the provision of NAS to address independence issues.</p> <p>The PIOB welcomes the current IESBA proposals to prohibit firms and network firms from providing NAS to audit clients that are PIEs “if there is [risk/possibility] that the provision of that non-assurance service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion”. The proposal to elevate to a requirement the assessment of a self-review threat strengthens these provisions.</p> <p>The PIOB also welcomes the strengthening of the prohibition for audit firms to provide certain NAS, such as bookkeeping and accounting services, to audit clients which are PIEs, without further assessment of the creation of a self-review threat. Exceptions are no longer allowed.</p> <p>The requirement for audit firms to obtain agreement from TCWG before providing NAS to audit clients that are PIEs is a necessary measure responsive to PIOB’s suggestions.</p> <p>The IESBA needs to consider the comments that stricter provisions for PIEs are already applicable in several jurisdictions, including where NAS provided to PIEs are prohibited in all instances; and that a Code that is less strict in respect of NAS requirements than current regulation in many jurisdictions would risk becoming redundant and would hinder global adoption and comparability.</p>
<p><b>Assessment of threats for NAS provided to related entities of PIEs</b></p>

The provisions on the self-review threat prohibition and the communication with those charged with governance in relation to NAS provided to related entities of a PIE need to be clearly addressed in the Code, either by the NAS or Fees TFs, and applied consistently to all PIEs (whether listed or not) to achieve certainty.

**Sufficiency of certain safeguards that involve using other teams or appropriate reviewers**

IESBA should consider the sufficiency and effectiveness of using professionals that are not members of the audit team to perform NAS or appropriate reviewers not involved in the engagement as a safeguard to address threats arising from the provision of NAS. It should also consider whether additional safeguards and alternatives can be applied whenever an appropriate reviewer is not a safeguard available or not scalable (e.g. in SMPs there may not be sufficient staff available).

**Provisions on Tax Services, within NAS, should be reviewed**

The initial proposals, within the NAS provisions, set the bar too low in allowing tax services.

The PIOB requested a revision of the text in R 604.4, which could have unintended consequences and be read as promoting aggressive tax planning rather than reasonable conservatism as expected from the audit profession. The IESBA revised and enhanced the text.

Nevertheless, the threshold used to determine whether the provision of tax services is allowable (i.e. “the proposed treatment has a bases in applicable law and regulation that is [likely] or [more likely than not] to prevail”) should set a high standard that is clear and provides certainty.

**Fees**

**Potential impact of fee levels and their significance on auditor independence**

As shown in several studies, the share of revenue from consulting services is increasing in relation to audit. Accountancy firms may devote fewer and lower quality resources to audit activities. The relative level of fees in audit and in consulting, as well as overall revenues, should be considered from the perspective of ensuring high quality audits.

For audit clients that are PIEs, the PIOB acknowledges the requirement for audit firms to communicate fees to Those Charged With Governance (TCWG) and to disclose fee-related information publicly. Transparency is fundamental to protect the public interest and to provide clarity and robust information for decision making.

On fee dependency from a client, the proposed changes require firms to disclose to TCWG whether the total fees from a PIE audit client exceed the threshold of 15% of

the total fees received by the audit firm. The PIOB notes the requirement of ending the audit engagement if the total fees from a PIE audit client exceed the threshold of 15% for five consecutive years, subject to some limited exceptions for compelling reasons. These provisions set strict guidelines that are enforceable and can be applied consistently.

**Sufficiency of appropriate reviewer safeguard**

The IESBA should consider revisiting the sufficiency and effectiveness of having one appropriate reviewer not involved in the engagement as a safeguard to address threats arising from fee dependency and whether additional safeguards and alternatives can be applied whenever the appropriate reviewer is not a safeguard available or not scalable (e.g. in SMPs there may not be sufficient staff available).

**Enforceability and clarity of language**

The IESBA should consider to clarify certain terms used in the ED, such as “large proportion of fees”, “significance”, etc., even if some of these terms have been used previously in the Code, as they may not be clear or precise enough in the current context. The clarification would help ensuring more consistency in the application of the provisions and enable enforceability.

**Definition of PIEs**

**Importance of the definition of PIE and coordination with the IAASB**

The definition of PIE is crucial to determine the categories of entities that are subject to stricter provisions in the Code. It affects important projects such as NAS and Fees.

Coordination with the IAASB is sought, to align the ISAs with the Code of Ethics and apply the two sets of standards consistently.

The definition of PIE should include all entities with a public interest impact on society (e.g. financial institutions, listed companies, significant utility companies), as well as those defined as PIEs by national regulators in their own jurisdictions, to ensure the global applicability of the Code of Ethics. Consideration should be given to any other entities outside the financial sector that could pose a threat to financial stability, to ensure that the proposed list achieves the overarching objective and that there are no evident gaps.

**Objectivity of Engagement Quality Reviewers and Other Appropriate Reviewers**

**Clarify interaction of cooling-off period addressing Objectivity of the Engagement Quality Reviewer with cooling-off in Long Association provisions (Section 540)**

The IESBA should clarify that the cooling-off period addressing threats to objectivity of an Engagement Partner (EP), when moving to the role of an Engagement Quality Reviewer (EQR), is different from and does not substitute the cooling-off period required in the Long Association provisions (Section 540) addressing independence and familiarity threats from an audit client.

In addition, Section 540 should explicitly explain the implications of the cooling-off period addressing threats to Objectivity on the 7-year “time-on” allowed with an audit client. Restrictions on the different Key Audit Partners’ roles allowed during that time of service should be clarified. For instance, an Engagement Partner who has served for five years will not be able to become Engagement Quality Reviewer during the remaining “time-on” period, after which he or she will be also affected by the cooling-off period set in Section 540.

The PIOB welcomes the revisions and the guidance included in the final revisions to the Code, clarifying that the cooling-off in ISQM2 is distinct and does not modify partner rotation requirements in Section 540 of the Code and vice versa. The PIOB also acknowledges the proposal to issue FAQ with further examples and clarification on the interplay between the two types of cooling-off.

**Cooling-off requirements should be explicit in the Code of Ethics**

Identifying threats to Objectivity of the Engagement Quality Reviewer and applying safeguards to address those threats are ethical matters that should be dealt with comprehensively within the Code of Ethics.

While the Code should remain principles-based whenever possible, certain significant matters that impact the public interest may require more prescriptiveness. An extant example is the cooling off period included in Long Association in the Code. The requirement of a cooling-off period for an EP that moves to an EQR role, currently proposed to be included only in ISQM2, is a significant requirement that should be established as a requirement within the Code to ensure consistency of both sets of standards (ISAs and the Code) and within the Code.

Scalability of these requirements should be duly taken into account and, in particular, the implications on the applicability by Small and Medium Practice (SMPs) firms.

The PIOB acknowledges the guidance included in Section 325 of the Code with a cross-reference to ISQM2 and explicitly recognizing that the cooling-off serves a dual compliance purpose, with ethical principles and quality management requirements. While this additional guidance may not entirely meet the concerns raised by the PIOB, it adds clarity and enhances the new provisions in the Code and enables users to better comply with the Conceptual Framework in respect of threats to Objectivity of the EQR.

**Coordination needed between IESBA and IAASB in relation to scope of application of a cooling-off requirement**

The scope of the cooling-off requirement in ISQM2 should be fully aligned with the Code of Ethics, especially in relation to applicability to PIEs vs. other types of entities (e.g. listed entities). The PIOB acknowledges the coordination between IESBA and IAASB in developing this project. However, further coordination should be sought to ensure that there is consistent application of requirements across the universe of entities.

Given the different level of adoption of ISAs vs. the Code, the implications on the application of the requirements to different types of entities should be carefully considered.

The PIOB acknowledges that the scope of application of the two sets of standards will be assessed once the PIE definition project is completed (see above for further comments on the PIE definition project).

**Audit Firms Business Model**

**Audit Firms' Business Model may be a barrier to auditor independence and Audit Quality**

The audit firm business model can be seen as a barrier to independence, to the effective implementation of Professional Skepticism, and to audit quality.

The current approach in the NAS and Fees projects does not challenge the concept of multidisciplinary audit firms.

Recognizing that the business model is a complex issue and that ethical issues are just one aspect of it, the PIOB recommends considering this issue while advancing other projects (NAS, Fees). Continued coordination with the IAASB and other stakeholders is encouraged to identify ways to address the topic.

**Technology**

**Ethical implications of Artificial Intelligence (AI)**

As a consequence of the increased use of technology by larger firms and the lack of guidance, it is in the public interest for the IESBA to develop guidance and create a framework for evaluating ethical issues and biases when the firms use automation and artificial intelligence to perform audit procedures.



The PIOB appreciates the consideration given by the IESBA to developing guidance on ethical issues when audit firms use technology and encourages IESBA to address the relevant issues on a timely basis.