



Public interest issues under current PIOB scrutiny: IESBA projects

February 2018

In response to our undertaking to communicate more directly the public interest issues that continue to be of concern to the PIOB, we set out below an outline of the public interest issues in current IESBA projects that have been identified from observation activities of our members and from staff monitoring of the development process. The purpose of this communication is to share with the SSB those concerns the PIOB may have at this stage of the relevant project's development. Most of these concerns have been raised by PIOB observers at meetings or communicated by staff. It is acknowledged that each of the projects identified below is work-in-progress and that further deliberation and refinement are ongoing. Consequently, the list below is not exhaustive and does not preclude the PIOB from raising further issues in the future.

In the context of IESBA projects, the topics of particular interest at this time are Professional Skepticism; Non-assurance services; Fee related matters; and IESBA Strategy and Work Plan 2019-2023.



Public Interest Oversight Board

1. Professional Skepticism (PS)	
PIOB Concern	Elaboration of PIOB concern
Timeliness of development of PS concept and need for coordination among SSBs	<p>PIOB encourages a focus on the broad PS project by all SSBs <i>in the medium term</i>. We recommend that SSBs in auditing, ethics and education engage collaboratively with a broad initiative on PS.</p> <p>With regards to ethics, we believe that IESBA should include this topic in its next Strategy cycle.</p>
Applicability scope of PS	<p>Recognizing the different roles played by PAs, PIOB supports the idea that a minimum level of PS (or other suitable term) should be applied by all professional accountants. Auditors may have different requirements around PS. The IESBA could develop the concept of “critical mind-set”, which potentially could be applied to PAs who are not auditors.</p> <p>PIOB believes it is in the public interest to extend PS to all PAs, as a way of strengthening the financial reporting supply chain. The professional attitude of PAIBs (preparers, those charged with governance (TCWG), etc.) is a critical line of defence to underpin reasonable assurance that financial statements are free from fraud, errors, and/or material misstatements. All PAs involved in the financial reporting supply chain need to apply PS (or equivalent construct) because auditors cannot detect and resolve all problems at the very end of the process.</p>

2. Non-Assurance Services (NAS)	
PIOB Concern	Elaboration of PIOB concern
Review of NAS provided by auditors should be a priority in the next IESBA strategy	The PIOB recommends a review of NAS provisions in the Code of Ethics as a priority in the next IESBA Strategy & Work Plan (2019-2023).
Exceptions to prohibited NAS compromise auditors independence and reduce the	<p>The PIOB has serious concerns around exceptions in the context of NAS.</p> <p>The Code of Ethics would be stronger and more credible if it were to establish prohibitions, without exception, on auditors providing</p>



Public Interest Oversight Board

<p>efficacy and credibility of the Code of Ethics</p>	<p>incompatible services (e.g., bookkeeping and accounting services) to audit clients. A clear list of prohibitions would be welcome.</p> <p>The PIOB suggests that NAS provided by an auditing firm to its audit clients should be approved by the Audit Committee.</p>
---	--

3. Fee-related matters	
PIOB Concern	Elaboration of PIOB concern
<p>Potential impact of fee levels and their significance on auditor independence</p>	<p>As shown in several researches, the share of revenue from consulting services is increasing in relation to those from audit. Accountancy firms may devote less, and lower quality, resources to audit activities if this trend continues. The level of fees in audit and in consulting, and relative revenue shares, should be looked into to ensure high quality audits.</p> <p>The PIOB believes there is sufficient concern among stakeholders that a comprehensive IESBA project on fees is justified in the next strategy cycle.</p>

4. IESBA Strategy and Work Plan 2019 – 2023 (SWP)	
PIOB Concern	Elaboration of PIOB concern
<p>Significant ethical issues in public discourse should be visible in IESBA's SWP</p>	<p>Ethical issues around aggressive tax planning and related services was identified in the stakeholder survey as an important area for IESBA. PIOB believes there is a need for IESBA to delve more deeply into the public interest implications of aggressive tax planning.</p>
<p>Audit Firms' Business Model may be a barrier to auditor independence and Audit Quality</p>	<p>The audit firm business model can be seen as a barrier to real independence, to the effective implementation of PS, and to audit quality. PIOB recommends an in-depth consideration of this issue during the next strategy cycle.</p>
<p>Coordination among SSBs</p>	<p>The recent movement towards explicit collaboration among SSBs needs to be extended and to be seen to be operating effectively to increase coherence of standards.</p>