



Public Interest Oversight Board

## PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of December 2019.

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)**

**The PIOB expects a significant revision of the provision of NAS, ultimately addressing independence issues**

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The PIOB welcomes the current IESBA proposals to prohibit firms and network firms to provide NAS to audit clients which are PIEs, "if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion".

The PIOB also welcomes the prohibition for audit firms to provide certain NAS, such as bookkeeping and accounting services, to audit clients which are PIEs, "when the results of the services create a self-review threat that affects the accounting records or the financial statements on which the firm will express an opinion". Exceptions are not allowed any longer.

The requirement for audit firms to obtain agreement from TCWG before providing NAS to audit clients which are PIEs, is responsive to PIOB's suggestions.

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

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

The PIOB requested to revise the text in R 604.4 as it 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.



Public Interest Oversight Board

## **Fees**

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

As shown in several researches, 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 which are PIEs, the PIOB acknowledges the requirement for audit firms to communicate fees to Those Charged With Governance (TCWG) and to publicly disclose fee-related information.

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 possibility to end the audit engagement if the total fees from a PIE audit client exceed the threshold of 15% for five consecutive years.

## **Promoting the Role and Mindset Expected of Professional Accountants (R&M – formerly Professional Skepticism)**

### **Applicability of a minimum level of Professional Skepticism or other suitable term**

PIOB supports the idea that a minimum level of PS (or other suitable term, such as “critical mindset”) should be applied by all professional accountants.

The PIOB welcomes the current proposals in the ED, including: applicability of professional judgment to all PAs; requirement to exercise professional judgment “with an inquiring mind”; application material on the threat of “automation bias” and on the importance of firm “culture” with a reference to ISQM1.

## **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.



Public Interest Oversight Board

### **Audit Firms Business Model**

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 an aspect of it, the PIOB recommends keeping it into consideration 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 the larger firms and the lack of guidance, it is in the public interest that the IESBA develops guidance and a framework for evaluation of 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 develop guidance on ethical issues when audit firms use technology, to quickly address the relevant issues.

### **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 which 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 have a consistent application of the two sets of standards.

The definition of PIE should include all entities which have 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.