



## PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of September 2022.

For further information and details about the IESBA projects, please refer to the IESBA website: [ethicsboard.org/consultations-projects](https://ethicsboard.org/consultations-projects)

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### ONGOING PROJECTS

#### Technology-related Revisions to the Code and Non-Authoritative Material

The use and impacts of technology are among the most important issues the profession is facing. The pervasive nature of technology, and its broad and exponentially growing use, pose significant ethical challenges which it is in the public interest for the IESBA to address in a comprehensive and timely manner. COVID-19 effects and the accelerated adoption and development of technology are additional reasons for urgency.

The PIOB appreciates the extensive and careful work done to date on the topic. It welcomed the IESBA's establishment of a Technology Working Group (TWG) focusing on developing non-authoritative guidance, fact finding and thought leadership, to complement the work of the Technology Task Force (TTF) focusing on the Code and relevant revisions needed.

The need for an ethical framework for the understanding and use of technology

#### Technology-related Revisions to the Code and Non-Authoritative Material

The PIOB welcomes the IESBA's consideration of the ethical implications of a professional accountant (PA) using, or encouraging their clients to use, technology, and clarifying how the fundamental principles in the Code should be applied in such a complex and new environment. It is important that the Code signals clearly the level of competency, and the nature of professional judgement, that are needed to ensure an ethical approach.

It is similarly in the public interest for the IESBA to address within the Code, and supported where appropriate by guidance, how to evaluate ethical threats and biases when audit practitioners and firms use automation and artificial intelligence to perform audit procedures.

#### Independence issues and IT Services in the NAS Section of the Code

The PIOB appreciates the Task Force's proposal to clarify that where there is a sale or licensing of technology by audit firms or network firms to audit clients, the independence provisions in the NAS section (600) in the Code apply (including the prohibition to provide those services when a self-review threat might be created).

The PIOB also notes the proposed clarifications and enhancements in the Code related to IT services. The proposal in the exposure draft, to include data hosting services to audit clients as an example of management responsibility, fell short of a straight prohibition of these IT services (which were listed in the application material rather than in the requirements). The PIOB notes that the revised proposals result in a prohibition of those services but believes that more straightforward language would make the Code's provisions more robust and clear.

#### Effective co-ordination of effort

Co-ordination between the TWG and the TTF has been critically important to the IESBA's responsiveness on this issue. It is crucial that the outcome of the TWG's recently-completed activity continues to complement the work of the TTF and informs possible further actions to be included in the Strategy and Work Plan.

Technology-related Revisions to the Code and Non-Authoritative Material

External engagement needs to be broadened

A critical factor in ensuring responsiveness to the public interest is the nature and extent of stakeholder engagement. The surveys conducted by the TTF in 2020 (“Technology and complexity in the professional environment” and “The impact of technology on auditor independence”) showed an imbalance in the input received, where the majority of respondents belonged to the audit profession and there was a low level of participation from investors, regulators and other stakeholders. The PIOB notes that targeted outreach has since been conducted by the TWG with a number of groups, such as Those Charged With Governance, Public Sector organizations, PAIBs and Technology companies, to obtain views from a broader and more complete group of stakeholders, in accordance with the PIF.

The PIOB also notes the establishment of a Technology Experts Group (TEG), which includes NSS, Consultants, PAIBs, PAPPs, TCWG, and Academics, and which will act as a sounding board to the TWG. The PIOB acknowledges that the selection of the group mainly took into account the expertise in technology and notes that the composition could possibly benefit from views of other stakeholders, such as regulators or users/investors or from different economies with relevant insights.

Working with other projects and the IAASB

The pervasive nature of the technological challenges also raises the need for broader co-ordination, including with other IESBA projects (such as Tax Planning and Sustainability) and the IAASB.

Engagement Team and Group audits

Definition of Engagement Team and opportunity for the IESBA to strengthen independence requirements in the Code



### Engagement Team and Group audits

The PIOB welcomes the coordination efforts between the IESBA and IAASB to align and simplify the definitions of Engagement Team in the Code.

The interaction of multiple definitions, individuals with different characteristics, consideration of entities as PIEs or non-PIEs, related entities and component auditors, requires careful consideration as it may have consequences on auditors' and firms' independence.

The PIOB acknowledges the careful work undertaken by the IESBA on this topic, and notes the generally positive response to the exposure draft. It has encouraged the IESBA not only to take the opportunity to improve the definitions in the Code, but also to strengthen independence requirements around component auditors outside the network and the associated responsibilities of the group engagement partner. The interactions of multiple definitions, individuals with different characteristics, consideration of entities as PIE or not, related entities and components can add unnecessary complexity to the provisions. Despite that, the standard needs to be clear and understandable to be in the public interest. Implementation guidance may be necessary to ensure consistent application of the provisions.

The PIOB welcomes the proposed revisions in response to feedback from stakeholders. Finalizing the Code changes will benefit from a special focus on clarity and consistent global applicability and enforceability

In finalizing the revisions, any exceptions to the independence requirements for non-network component auditors of group audits should be limited and based on evidence about the feedback received during the consultation. Independence, both in appearance and in fact, is foundational and is key to the public interest. The IESBA needs to carefully balance the application of the independence principle as stated in the exposure draft against the need to address unintended consequences or practical challenges that could impair application of the Code in specific circumstances.

See additional comments below related to the independence of external experts.

#### Engagement Team and Group audits

Ultimate responsibility for the group audit and effective coordination with component auditors in relation to independence

The PIOB notes the importance of enhanced communication within the group engagement team and confirmation of the group engagement partner's ultimate responsibility in respect of independence matters (including those at component level, as discussed above). In particular, the coordination of the proposals in the Code and those of ISA 600 (revised) requiring: a) strong communication within the group engagement team, particularly between component auditors and the group engagement partner; and b) clarity about the group engagement partner's responsibilities, will create consistency, in line with the PIOB's recommendations in relation to the revision of ISA 600, Group Audits.

The PIOB acknowledges the inclusion in the exposure draft of a cross-reference to ISA 600 (revised) and the group engagement partner's responsibility for "confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence...". The PIOB also welcomes the alignment with ISA 600 (revised) of the specific requirements for situations of breaches of independence of component auditors and the roles and responsibilities of the group engagement partner and the component auditor firms. A key focus area in finalizing the Code changes will be to ensure certainty and consistency in the independence requirements applying to component auditors.

#### Tax planning and related services

Given the emphasis across the globe on matters relating to tax, tax avoidance and social responsibility in respect of tax practices, as well as concerns raised by many stakeholders on these topics, the PIOB welcomes the IESBA's willingness to take a leadership role undertaking a project to



### Tax planning and related services

develop ethical provisions and associated guidance for PAs (both in public practice and in business) providing tax planning and related services.

#### Key Public interest outcomes

The PIOB welcomes and supports the public interest outcomes identified by the IESBA for this project, as well as the challenges that will be faced. Most notably the PIOB highlights the following as key public interest issues:

- Promoting consistent ethical behavior of PAs providing tax planning services
- Raising the awareness of risks associated with unacceptable tax planning
- Promoting sustainability principles, including transparency.

Achieving consistent ethical behavior of PAs in relation to tax planning is a critical outcome and sets high expectations for the profession. The PIOB welcomes the IESBA's intention to provide an ethical framework for PAs to determine how to identify threats, apply adequate safeguards and report, as needed, when providing tax related services, as well as develop relevant practical guidance on how to apply this framework in particular circumstances. This would be a welcome outcome in the public interest.

#### Global diversity in relation to tax regulation, practices and cultural perceptions

Achieving the public interest outcome will be very challenging, not least because of the extent of regulatory, professional tax practice and cultural diversity across the globe. The challenges include reaching broad agreement in terms of terminology, the relationship between legality and acceptability (including in cross-border situations), incorporating societal expectations without requiring moral judgements about acceptability, and ultimately achieving consistent ethical behavior of PAs providing tax planning services. The IESBA should remain cautious and aware of these challenges to ensure that guidance sets high expectations on the behavior of PAs, as demanded by stakeholders, and is capable of producing substantive change.



#### Tax planning and related services

The PIOB acknowledges the proposed new sections to the Code for PAs who provide tax planning and related services, and that include requirements to have a “credible basis” as well as to perform an assessment that considers “reputational, commercial, and wider economic risks”. In preparing these sections for exposure, the IESBA should consider how best to emphasize the exercise of professional judgement, as a critical element in establishing a “credible basis”, and further encourage PAs role in achieving transparency of tax-related matters in the financial statements. The IESBA should also consider whether the Code should include a requirement for the PA to document their application of ethical considerations in tax planning.

The PIOB expects that the IESBA will also continue to focus on finding the right balance between achieving high-quality standards and meeting the timeline developed for the project that reflects the milestones it intends to achieve and the urgency given to the topic.

#### Broad external engagement with relevant stakeholders

The PIOB welcomed the series of global roundtables organized to gather input and feedback from a broad range of stakeholders. It also welcomes the targeted outreach that has since taken place with stakeholders beyond the accounting profession, including investors, national standard setters, and the OECD. It encourages the continuation of that engagement with those stakeholders and with civil society organizations, tax authorities, and lawyers/other professionals providing tax services. The objective is to ensure that existing initiatives and experience are leveraged, and that views are adequately taken into account in preparing the exposure draft.

OTHER PUBLIC INTEREST ISSUES (NO PROJECT PROPOSAL APPROVED YET)

### External Experts

Need to consider the independence of experts outside the engagement team

External experts are explicitly excluded from the definition of Engagement Team both in the IAASB standards (ISQM1 and in ISA 220 (revised)) and in the proposed definition of the Code (which is expected to be aligned with ISQM1). As a result, these individuals are not subject to independence requirements of the Code.

Given the growing involvement of experts in areas such as estimates and technology and, in particular in sustainability reporting, it is in the public interest to assess whether the nature of their work and contribution to the audit opinion requires further independence requirements, similar to other individuals that are part of the engagement team.

As this matter is out of the scope of the current IESBA project on Engagement Team definition and Group audits (see further comments above), the PIOB has been recommending the IESBA and IAASB consider this issue in the Code and through a revision of ISA 620, *External experts* when next considering the Boards' Strategies and Work Plans for 2024-2027. The PIOB notes this has been highlighted as a priority by numerous stakeholders in the survey on the Work Plan, including in the area of sustainability reporting and assurance.

### Preparation of Information and Assurance on Sustainability Reporting

Take a leadership role in developing ethical guidance for challenges that arise in sustainability reporting and assurance

Reporting on non-financial information, ESG, or sustainability reporting is a global demand, actively included in the agenda of international standard setters. Assurance on this information will be critical to give confidence to its users about the reported information.

Along with diverse initiatives in the sustainability reporting space (including in relation to climate change impacts), the IESBA, in coordination with the IAASB where assurance is concerned, is taking a leadership role to identify





### Preparation of Information and Assurance on Sustainability Reporting

key ethical and independence challenges that arise from these services and develop fit-for-purpose standards on how to navigate them. A global and timely response is needed in the public interest, and the PIOB welcomes the IESBA's public statements about this. The FSB progress report issued in July refers to IESBA's responsibility in developing ethics standards for sustainability reporting and assurance. The PIOB also notes IOSCO's public announcement in mid-September of its support for the IESBA to develop profession-agnostic ethics (including independence) standards for sustainability assurance engagements.

The PIOB welcomes the discussion undertaken by the IESBA on the role of the PAIBs (involved in the preparation and disclosure of sustainability reporting), as well as of the PAPPs (involved in providing assurance services on sustainability reporting). The staff paper on greenwashing is an important first step to provide guidance.

Although the Code of Ethics applies only to professional accountants, the PIOB welcomes the IESBA's consideration of developing fit-for-purpose ethics (including independence) standards that could be used by other professionals who provide assurance on sustainability reporting (e.g. engineers, IT consultancies, actuaries, etc.), recognizing that it is in the public interest that all assurance providers adhere to the same high bar of ethical behavior and independence when engaged to perform sustainability assurance engagements. The PIOB notes the difficulty of the sustainability project and the importance of careful leadership by the Board and looks forward to the IESBA's discussion on how to approach this topic.