

## PIOB's Public Interest issues: IESBA projects

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

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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### ONGOING PROJECTS

#### **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 sustainability 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 key ethical and independence challenges that arise from these services and develop fit-for-purpose framework-neutral 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 followed by the approval of a project proposal. The Financial Stability Board (FSB) progress report issued in July<sup>1</sup> 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 Professional Accountants In Business (PAIBs) (involved in the preparation and disclosure of sustainability information), as well as of the Professional Accountants in Public Practice (PAPP)s (involved in providing assurance services on sustainability reporting). Both preparers and assurance providers need clarity and certainty on their respective ethical responsibilities. This applies to all forms of sustainability information, including that from a broad ESG perspective and more specific types of

<sup>1</sup> The FSB issued in July 2022 the "FSB Roadmap for Addressing Financial Risks from Climate Change – 2022 Progress Report".

### **Preparation of Information and Assurance on Sustainability Reporting**

information such as climate change impact reporting. The new project provides the opportunity to build on the IESBA staff paper on ethics considerations in sustainability reporting, including how to address greenwashing (published in October 2022), which was 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 IESBA's intention to engage in extensive global outreach as a first step in the project. It encourages the IESBA to ensure that the planned global roundtables involve a broad range of stakeholders, including users of sustainability information and professionals other than accountants. This should provide insights about the various ethical standards currently being applied and what steps the IESBA needs to take in the public interest to ensure that all assurance is provided to a consistent standard.

The PIOB notes the challenges and difficulty of the sustainability project and the importance of careful leadership by the Board, and looks forward to the IESBA's progress of the project.

### **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.

The PIOB appreciates the extensive and careful work done 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**

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

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

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 provisions recently approved by the IESBA 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 clarifications and enhancements in the Code related to IT services, as well as the prohibition of data hosting services (included as an example of management responsibility).

The PIOB will assess the approved provisions at its April 2023 meeting to provide a separate public certification on the approved standard, and notes the IESBA's consideration of the Public Interest Framework and its qualitative characteristics when developing and approving the new Code provisions.

#### **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 informs possible further actions to be included in the Strategy and Work Plan.

#### **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 was later 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.

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

The PIOB also noted the establishment of a Technology Experts Group (TEG), which included NSS, Consultants, PAIBs, PAPPs, Those Charged With Governance (TCWG), and Academics, and which acts as a sounding board to the TWG. The PIOB acknowledged that the selection of the group mainly considered the expertise in technology and noted that the composition could possibly benefit from views of other stakeholders, such as regulators or users/investors or from different geographies with relevant insights.

#### **Working with other projects and the IAASB**

The pervasive nature of technology will be an ongoing challenge and will also raise 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**

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

The PIOB acknowledges the careful work undertaken by the IESBA on this topic, and notes the generally positive response from stakeholders. 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 group auditor's network and the associated responsibilities of the group engagement partner. The interaction of multiple definitions, individuals with different characteristics, consideration of entities as PIEs or not, related entities and components requires careful consideration as it may have unintended consequences on auditors' and firms' independence. Despite that, the standard needs to be clear and understandable to be in the public interest. Implementation guidance, including practical examples about how and when those in the chain of command within a non-network component auditor firm could significantly influence the group audit, will be necessary to ensure consistent application of the provisions.

The PIOB welcomes the revisions that are responsive to feedback from stakeholders, with a special focus on clarity and consistent global applicability and enforceability.

The PIOB also acknowledges the analysis carried out to ensure that independence requirements for non-network component auditors in group audits provide a proportionate approach that can be applied in practice and are based on evidence of

### **Engagement Team and Group audits**

challenges present in most large multinational group audits. Independence, both in appearance and in fact, is foundational and is key to meet public interest objectives.

The PIOB will assess the approved provisions in Q1 of 2023 to provide a separate public certification.

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

### **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 provisions of a cross-reference to ISA 600 (Revised) and the group engagement partner's responsibility to "request the component auditor to communicate whether the component auditor has complied with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement". 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.

### **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 in undertaking a project to 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**

### **Tax planning and related services**

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 the provisions set high expectations on the behavior of PAs, as demanded by stakeholders, and are capable of producing substantive change.

The PIOB acknowledges the approved exposure draft that proposes two new sections to the Code for PAs who provide tax planning and related services, including requirements to have a "credible basis", as well as to perform an assessment that considers "reputational, commercial, and wider economic consequences" and that put greater emphasis on exercising professional judgement, as a critical element in establishing a "credible basis".

The PIOB notes that the proposed text could go further in promoting transparency and good governance by guiding PAIBs to encourage and promote the disclosure of tax-related matters by their employing organization in the financial statements or other relevant public documents, given the expectation under Part 2 of the Code for PAIBs to encourage and promote an ethics-based culture in their organizations, taking into account their position and seniority in their organizations. It is important for the IESBA to address that option in the consultation process. During the consultation, the IESBA should also consider whether the Code should include a requirement for the PAs to document their application of ethical considerations in tax planning.

**Tax planning and related services**

**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 the proposed provisions.

**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 revised definition in the Code (which is 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 was out of the scope of the IESBA project on Engagement Team definition and Group audits (see further comments above), the PIOB has been recommending the IESBA and the IAASB to 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. The PIOB welcomes the IESBA's responsiveness on this topic and the recent approval of a project proposal on the "Use of experts".

