IESBA Observation Memo

Hybrid/New York, November 29-December 2 & 15, 2022

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Disclaimer: The observer applies her own judgment in identifying and communicating matters of public interest and due process at the meeting, and is responsible to the PIOB Technical Committee in doing so and in reporting on the observation. The views and opinions expressed in this Observation Memo are personal and belong solely to the observer and do not necessarily reflect or preclude the PIOB Board's position.

Summary of key issues from the meeting:

The IESBA meeting was held in a hybrid format, from November 29-December 2, 2022, at the IFAC offices, in New York, USA, with almost all Board Members and attendees in person. A later session took place virtually on December 15th. There was another one planned on December 7th that was cancelled since the items were covered during the first days in New York.

The meeting was chaired by the IESBA Chair. She congratulated the new Board members and thanked those that leave this year. She also mentioned that the March meeting will take place in Abu Dhabi.

The meeting ran very smoothly, and allowed for the active participation of all attendees, including Board members, observers, and in particular the TF and WG Chairs and the staff. There were also 3 invited people that had their own presentations.

During the several days of the meeting, the final provisions on ET/GA and Technology were approved, an ED on Tax planning was approved for consultation, and two project proposals to develop EDs, on Sustainability and Use of Experts, were also approved.

The agenda was as follows:

- 2 - ENGAGEMENT TEAM/GROUP AUDITS INDEPENDENCE
- 3 – SUSTAINABILITY
- 4 – TAX PLANNING AND RELATED SERVICES
- 5 – TECHNOLOGY (REVISIONS TO THE CODE)
- 6 – STRATEGY AND WORK PLAN (SWP) 2024-2027
- 7– TECHNOLOGY WG
- 8 – PIE ROLLOUT

Agenda Item 2 - ENGAGEMENT TEAM/GROUP AUDITS INDEPENDENCE

Objective of the Agenda Item

To align the definition of the term "engagement team" (ET) in the Code with the revised definition in ISA 220 (Revised), that now includes component auditors (CA), within or outside of the network, and service providers, and to clarify the independence requirements applicable to the different individuals that are part of the ET.

The item was covered in several sessions, Day 1 and 4, and the main purpose was to agree with the last version of the project and vote its approval. By working several days, the Task Force could modify the document before the final voting.

IESBA Key discussion points

The Task Force Chair referred to the comments received during the outreach events and the discussion with relevant stakeholders that had taken place in October and November:

- Difficulties in understanding "the reason to believe" principle.
- Referred to the 2 approaches to identify threats that are considered equally effective and workable:
  Top-Down: based on the full list of related entities of the GAF.
  Bottom-Up: based on individuals and on the "reason to believe" concept.
- Main concern of PIOB: exceptions to independence requirements for component auditor firm (CAF) outside of the group auditor firm (GAF), which should be based on evidence of practical challenges. After the analysis made, the TF considers that this issue is present in most large multinational group audits, thus it would not be a few specific exceptional cases. Referred to the possibility of PIOB doing an accelerated process to issue the certification of the standard before April.

The Task Force Chair asked for comments/questions, and all that intervened were in favor of the proposed text. One member mentioned that would have preferred a simpler ethical line, but understood that last word was in the group engagement partner, and considered it a good solution. He insisted on the need to clarify the "reason to believe" since it could mean that ignorance is used as a justification, while the expectation is that they should know.

The Task Force Chair mentioned that the Basis for Conclusions could provide some explanations. But after some comments, it was considered better to have them in the Application Guidance.

A member mentioned worries about market concentration, and the convenience to have SMP as component auditors. Some other mentioned the importance of appearing independent.

In the Friday session, the few comments made on Tuesday were discussed in detail, and all Board members agreed with the proposal and the effective dates: 15 December 2023, and 2024 for different parts of the Code.

On the suggestion made about including application material to explain "the reason to believe" test, the Task Force decided not to do so, since they understand that taking into account the Conceptual Framework, and with a small change in the text this could be solved. Members agreed with it.

After a reading of the last revised text, the Chair proposed to do the voting the same day instead of virtually on December 7th and everybody agreed.

All members unanimously approved the final provisions, including the effective dates.

<u>PIOB Observer's comments</u>

I said that from the public interest perspective this is a very important project, that independence should be the principle to be followed by all intervening in the Group Audit. Despite splitting the responsibility to meet the requirements between the GAF, by providing relevant information about the group and the related entities, the CAF, by ensuring independence for those in the "chain of control", and the individuals, it is important that the ultimate responsibility to ensure that independence requirements are met lies in the Group engagement partner. To the extent the two approaches (top-down, and bottom-up) included in the final project will be equally effective, we are happy with it, but this is something to be seen, and there could be challenges for the component auditors outside the network.

Before the vote on Friday, I asked the floor to reiterate that the PIOB thinks that this is an important project and includes provisions to achieve the independence of all individuals that intervene in the Group Audit, this is particularly relevant to the Component Audit Firms outside the network. Thus, it is in the public interest since it affects the trust in the audit of the group.

Agenda item 3 – SUSTAINABILITY

Objective of the Agenda Item.

To raise awareness on how provisions in the Code apply when preparing, presenting and assuring sustainability information. The Working Group presented the draft project proposal for approval, including a separate project proposal on the "Use of experts".

The item was dealt in two sessions Days 1 and 4.

Before starting to discuss the several documents, 3 presentations were made: two online by Graville Martin (ISSB) and Lyn Provost (IAASB). They briefed the Board about recent developments in their respective institutions. Mr. Martin said that the two first IFRS standards will be published in the first quarter of 2023, and that the ISSB will allow entities to delay the publication of Sustainability Reporting (SR) compared to Financial Reporting (FR) during some years to facilitate the implementation process. Ms. Provost mentioned that there will be one IAASB stand-alone assurance standard, which eventually might be the first of a series, to be used by accountants and others. As for the timeline: September 2023 publication of an ED, February 2024 end of comment period, December 2024-March 2025 approval of the standard by the Board.

Besides David Maddon (IFAC) came to present a study on reporting and assurance of sustainability information based on 1400 large companies that disclosed that information on 2021. The focus of the study is the use of ISAE 3000 (Revised) and the Code.

IESBA Key discussion points

The idea is to have a standard that is reporting framework-neutral, and not only for public accountants but for others. Regarding time, they will coordinate with IAASB and ISSB. The Working Group Chair explained that there will be 3 workstreams: the first dealing with independence (now part 4 in the Code), a second one with ethics (now in parts 1 to 3), and a third stream referred to the use of experts. He said that the stakeholder engagement is vital, and to decide on the structure of the output, they will wait to have more stakeholder outreach. He referred to a questionnaire that has been already launched, but will be circulated again after Christmas to get more answers.

There were some positive comments by several Board members on the draft project, and some doubts about how to get that the Code is profession-agnostic, or interoperable (in the words of another member), or understandable (in the words of the IESBA Chair). A general view was that through outreach it will be possible to gather other professionals' views.

Then the discussion was centered on the project of Use of experts.

Some members intervened to express their agreement with the project. The IESBA Chair said this is a project bigger than SR, and asked my view on that (see below).

There will be a coordination of the 3 workstreams, and the 3 leaders were mentioned. A call for expression of interest was opened, with the purpose of having 4 Board members per group.

On Friday, new updated documents were distributed, and the Chair of the WG explained the very few changes, there were no comments from the Board.

The IESBA Chair proposed to vote the project plan, including the timeline: in 2023 (Q1) there will be outreach events, followed by an ED in December 2023. The project was also unanimously approved.

Then the IESBA Chair indicated the 3 teams formed, in principle, by Board members.

A sustainability coordination committee formed by the 3 chairs, the IESBA Chair and the Program and Senior Technical Director will also help to coordinate proposals.

The CAG Chair asked if he could observe the online sessions, and the answer was positive.

The outreach roundtables will start in March, probably on 27th, in Paris, followed by Singapore, Sidney, and New York.

PIOB Observer's comments

I said that PIOB is very pleased with the decision to work towards a sector-agnostic Code, covering preparation and assurance of SR. We were surprised by the third workstream referred to experts, which is indeed related, but is not just affecting SR. In our view the SR needs a lot of effort, and it has to be done with a tremendous urgency. And adding this other workstream is perhaps too much work. I also mentioned that although we understand that IESBA is following the ISSB approach, and so far they only deal with climate, in other parts of the world, in the EU, other matters are taken into account, ESG in broad terms. Thus individuals and preparers/entities will need the Code to prepare and assure this information, not only referred to climate.

The IESBA Chair replied that the whole project, with the 3 streams, can be done, and added that even if it is not perfect from the beginning, they are going to make an effort to move forward.

Agenda item 4 – TAX PLANNING AND RELATED SERVICES

Objective of the Agenda Item.

To develop a principle-based framework, leveraging the fundamental principles and the conceptual framework, to guide professional accountants' ethical conduct when providing tax planning and related services to employing organizations and clients.\.

IESBA key discussion points

The Task Force Chair explained the changes from the September version of the project to the current version, in which comments by Board members have been taken into account, as well as later comments received. A Task Force member intervened to give some general views on the outreach and the good reception that the project has taken. They made it clear that the public accountant (PA) does not have the responsibility of the tax decisions, but is the "voice of the client".

The changes were explained one by one, and some clarifying questions were made, as well as wording details were discussed. It was explained that the PA can give advice if there is a "credible basis". A Board member asked about the convenience to use that expression, and the response was that this is not easy to change, it is the less controversial term, it does not have a legal connotation and it is aligned with professional behavior.

The CAG Chair asked about the convenience to have some reference to likelihood/probability, and the response was this has been replaced by the "credible basis" expression.

The vote for the approval of the ED took place in the virtual session on the 15th, after a new discussion on the responsibilities of PA in business and public practice in case of finding some problem. It was agreed that these aspects will be included in the Explanatory Memorandum. All members voted in favor of the project. An ED will be launched for consultation in the next months, aiming to have a standard approved by December 2023.

The IESBA Chair congratulated the Task Force and stated that this project is going to change the minds of many stakeholders that already agree with the project, and will have a deep role in modifying the mindset of PAs.

PIOB Observer's comments

I intervened to congratulate the Task Force for having developed such an important project in a short period, and mentioned that the PIOB thinks that this is an extremely important project, is a step ahead in taking the public interest into account. We have already said this in several occasions, but I wanted to insist. I also mentioned that, as

indicated in the Public Interest issues (see the November edition), it would be good to give another step ahead and consider the possibility that PAs aim at the responsible person in the organization to include the tax arrangements in the financial statements. This would be an exercise of transparency and good governance. I also aimed the Board to continue this ambitious goal to improve the ethical behavior of those that intervene in corporate reporting and related services.

Agenda Item 5 - TECHNOLOGY

Objective of Agenda Item

To enhance the Code's provisions in response to the transformative effects of major trends and developments in technology in order to maintain the Code's robustness and relevance as a cornerstone of public trust in the global accountancy profession.

IESBA key discussion points

The Task Force Chair reported about the outreach with IOSCO, IFIAR, Forum of Firms, IESBA CAG, IAASB Technology Consultative Group, coordination with IESBA Technology WG, and presented the revised proposed standard, paragraph by paragraph, whose proposed effective date is December 15th, 2024.

Board members expressed their agreement with the proposed standard and the date and all voted unanimously in favor of the standard.

PIOB Observer's comments

The IESBA Chair invited me to take the floor, and I just confirmed that PIOB agrees with the changes introduced that are based on the comments received, and also with the proposed effective date. That said, since some wording issues are still pending, I advised the Task Force to consider the qualitative characteristics in the PIF.

Agenda Item 6 - STRATEGY AND WORKING PLAN (SWP)

Objective

To develop the draft of SWP for 2024-2027 (to be approved by December 2023); the document for public consultation should be circulated in early 2023 and approved in March 2023.

IESBA key discussion points

The IESBA Technical Director presented the proposed SWP. The list of projects to be considered and the expected timeline include:

- Projects started before 2024, Sustainability, Use of external experts, CIVs, Pension funds and Investment company complexes, and PIR on NOCLAR (in Table A agenda paper Item 6B)
- Projects pre-committed, to start in Q1 2024 or later: PIRs for Long Association (phase 2), Restructured Code, NAS and Fees, and PIEs (in Table B agenda paper Item 6B)
- Proposed new workstreams (start between Q1 2025 and Q1 2026): business relationships, definitions and description of terms, Audit Firm-Audit Client relationship, Role of CFOs and other senior PAIBs (in Table C agenda paper Item 6B)

The Technical Director mentioned that there have been previous meetings with CAG, IFAC and with IAASB, mainly referred to PAIBs, including CFOs, that don't have the same supervision as PAPPs. He indicated that there is a clear belief that a close collaboration between both Boards in strategical as well as technical/ operational aspects is needed, and the thinking of both Boards is very close (the IAASB SWP will be released in early 2023).

The IESBA Chair reaffirmed her positive opinion on having a sector-agnostic Code, and remarked that IESBA is entering in new areas, the culture outside is also changing, and stakeholders want a change. She insisted that SR is a trigger for a different approach. In her view IESBA has to shape and understand the PA's concerns. It is important to have information and filter it.

Members agreed on the idea of enlarging the "breadth and depth" of the Code.

The IESBA Chair referred to the importance of communication, speaking and explaining what they do.

There were some comments on the wording about the IESBA mission, and on the adequacy of using the expression "raising the bar".

The Vice Chair mentioned that, when there is a failure, people think in PAIBs, so the bar of PAIBs should be raised, work with national standard-setters and increase the trust in the profession. A member pointed out that all, auditors, preparers and directors, should have the same standards on ethical behavior, and have the same level playing field.

The CAG Chair mentioned that there will always be criticism, and mentioned that the PIF should be applied.

The IESBA Technical Director took the floor to refer to the several tables in the agenda paper item 6B in which the proposals for the SWP are detailed.

The content of Table A (see above) was accepted, but there were some doubts about Table B. One member mentioned that given that it is unlikely that any of the current members remain when these items should be considered (except the Chair), it is not clear how to compromise to them. The IESBA Chair said that is needed to continue scanning new things before agreeing on Table B. Board members mentioned the need to set priorities before agreeing, and the need for flexibility.

The IESBA Director asked about Table C.

Members questioned whether there is enough information to establish priorities in Table C, but the Chair said that this is to develop the Consultation Paper, and after gathering the views of stakeholders the final SWP will be established.

PIOB Observer's comments

I said that PIOB agrees with the plan, but we think that perhaps there are too many items in the several lists, and it will be needed to prioritize them before making decisions. We are impressed by the details in the SWP, and happy to see that some topics in Table A will be considered before 2024, in particular SR and CIVs that were suggested by PIOB. As for other items, in tables B and C, it is difficult to do this forecast for the next 4 years after 2024. Flexibility is needed as mentioned earlier, just in case other topics emerge. Although as the IESBA Chair had said the day before, it could happen that some solutions are not perfect from the beginning but it is good to move forward.

The Program and Senior Director added that not all items in the list will imply changes in the Code.

Regarding to the strategic drivers/operational factors, I highlighted two aspects: the inclusion of other stakeholders and the close cooperation with IAASB.

Agenda Item 7 -TECHNOLOGY WG

Objective of Agenda Item

To ask for IESBA members' views on the proposed approach for the technology initiative's way forward, after informing the Board of the TWG progress.

IESBA key discussion points

Some Board members intervened to question if there is a duplication with the Emerging Issues and Outreach Committee (EIOC) WG, and perhaps they could merge. Some others argued that this is not an issue, and in their view the TWG acts as an emergency group, as a sort of "reserve or radar" that has to solve thing very fast when they emerge. After some interventions, the conclusion of the IESBA Chair was that both WG will coexist, but it is needed to clarify their mandates, and they will have to coordinate.

The Chair of the TWG was a bit concerned about the TEG that was recently established, what they should do? The TWG will think about it.

The IESBA Chair asked for expressions of interest for both EIOC WG and TWG.

Agenda Item 8 - PIE ROLLOUT

<u>Objective of Agenda Item</u>

To present an update on the roll-out plan to promote awareness and adoption of the recently approved provisions of PIEs, as well as to provide an update on the IAASB PIE project.

<u>IESBA key discussion points</u>

The TF Chair explained there had been two panel discussions in October, in Asia-Pacific and Africa, with around 80 participants from about 29 jurisdictions. The aim was to learn the implementation issues regarding national PIE definitions.

Regarding the independence requirements there will be a joint meeting IESBA/IAASB in early 2023 to consider whether to exclude review engagement from transparency requirements.

As for the convergence of definitions between the Code and ISQMs/ISAs, the TF proposed a virtual IESBA meeting in late January/early February 2023 (likely the week of January 23rd-27th).

<u>PIOB Observer's comments</u>

I was asked about our/my view on this, and I replied that it is very convenient to agree in terminology for preparers, public accountants, and public in general, so it is in the public interest to make such effort.

CONCLUDING OBSERVATION COMMENTS

I congratulated the Board for the very successful meeting in which two important projects were approved, Technology and Engagement team/Group Audits, and another on sustainability was going to start with a lot of support. I encouraged to have the 4 roundtables the sooner the better to have input from varied stakeholders. Moreover, another ambitious project on Tax planning was about to be in the public domain, an ED, to get comments. I said that the 4 projects are very important for the public interest since they will contribute to strengthen the ethical view of preparers and assurers of information.