

Briefing Memo  
IESBA CAG  
March 6, 2023  
Hybrid Meeting

*Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB/CAG meeting, applying their best knowledge and their own judgement in identifying and communicating matters of public interest and due process. PIOB Staff views are discussed with the PIOB observer and the PIOB Board and do not pre-empt further PIOB's views or discussions. The main objectives of this memo are to support the PIOB member in his/her SSB/CAG meeting observation and to help maintaining consistency and continuity of oversight.*

The Agenda includes the following topics:

- A – REPORT BACK
- B – STRATEGY AND WORK PLAN (SWP) 2024-2027
- C – USE OF EXPERTS
- D - EIOC
- E – SUSTAINABILITY – ETHICS (WORK STREAM 2)
- F – SUSTAINABILITY – INDEPENDENCE (WORK STREAM 1)

Please refer to the PIOB's Public Interest Issues on the individual IESBA projects, as of December 2022, published in the PIOB website:

[PIOB PI Issues on IESBA projects - December 2022](#)

**A – REPORT BACK**

This session includes the report-back to the CAG on the following projects: Engagement Team-Group Audits (certification approved by the PIOB in February 2023), Technology-Related Revisions to the Code (approved by the IESBA in December 2022, and tabled for certification by the PIOB at the April 2023 meeting), Tax planning and Related Services (currently under exposure).

**B – STRATEGY AND WORK PLAN (SWP) 2024-2027**

Objective: the IESBA's current Strategy and Work Plan (SWP) will end in December 2023. The IESBA needs to approve the new SWP for 2024-2027 by December 2023.

Background and Status: The IESBA issued a survey in April 2022 to gather input on its SWP. The working group is made up by the Planning Committee. They presented a draft Consultation Paper (CP) on its 2024-2027 SWP for consideration by the Board at the December 2022 meeting, to be approved in March 2023.

The WG also used input from the CAG and from meetings with other stakeholders. They coordinated the development of the SWP with the IAASB.

Notes/key points from the review of the documentation for this meeting

Item B-1 includes the draft Consultation Paper that comprises the proposed strategy and the proposed Work Plan for 2024-2027 and a list of questions for respondents.

Key elements and substantive content of the draft consultation paper have not changed since December 2022. Main revisions include:

- Revision and alignment of some of the questions with those of the IAASB's Strategy and Work Plan Consultation Paper;
- Some refinements in the descriptions of the strategy and of some workstreams/projects;
- Addition of Custody of Data and Communication with TCWG as new potential workstreams;
- Elimination of the targeted deadlines for completion of projects from the tables, as most are not approved yet or are possible workstreams (however the targeted deadlines of completion of approved projects is retained in the text describing the project), indicating possible targeted deadlines/milestones in Appendix 3. They plan to review the status of the work plan in 2024;
- Elimination of the "Other Possible Work Streams" (given that there are already a high number of possible new projects), but including a specific question on any other topics that should be considered by IESBA;
- Addition of Appendix 2 with rationale for the anticipated level of demand of resources of each project/workstream (disclosed in Table C).

Public Interest Issues

Please refer to [PIOB PI Issues on IESBA projects - December 2022](#) on Assurance on non-financial information (IESBA project) and External experts, as of December 2022, published in the PIOB website.

PIOB Staff comments on PI

The draft CP, the strategic drivers and themes identified emphasize the importance of enhancing the trust both in sustainability reporting and assurance and in audit of financial information. This is in line with PIOB's views and responds to the recommendation to the IESBA to take a leadership role in sustainability reporting topics, from an ethical perspective.

In terms of priority topics, we note that the IESBA has already committed to start work on sustainability reporting, use of experts, analysis of CIVs and Pension funds even before the start of the strategy period, which address some of the recommendations raised by the PIOB and other stakeholders. We note the addition of two new important projects, and the elimination of the "Other possible workstreams", as the potential list of projects is quite long, given that some of the currently ongoing projects will require significant resources to meet stakeholders' demands. IESBA needs to ensure that prioritization and allocation of resources is done in a transparent manner and appropriately takes into account these expectations and the need to deliver high quality standards.

## C – USE OF EXPERTS

Objective: to address ethics and independence considerations concerning the use of experts in the preparation and assurance (including audit) of information, including sustainability information.

Background and Status: At the September 2022 meeting the IESBA agreed to establish a separate workstream to address considerations on the use of experts. This project will run in parallel with the two workstreams on Sustainability. The project proposal was approved in December 2022. The IESBA expects to approve an exposure draft in December 2023.

At the March 2023 meeting, the task force (TF) will present its preliminary views on certain matters and will request input from CAG representatives.

The roundtables planned for the Sustainability project will be used to also gather input on external experts.

### Notes/key points from the review of the documentation for this meeting

In the presentation (item C-1) the TF provides preliminary views on:

- Matters relating to ethical and independence behavior expected of experts used by PAs – this includes:
  - o What are experts and how they are used

- o Existing ethics and independence considerations in the Code (Sections 220/320), that address appropriateness of using an expert, and the ISAs (ISA 620, proposed ISA 500) that require assessing that the experts have the necessary competence, capabilities and objectivity.
  - In addition, the Code (ET/GA provisions) subjects (internal) experts to independence requirements if they are individuals that are part of the audit or assurance team (i.e. those that can directly influence the outcome of the audit and those who perform audit/assurance procedures), but excludes external experts (those with experience in fields others than accounting or auditing).
- o The TF notes the PI perceptions around the use work of external experts, and has considered whether they should be independent, in particular in the case of audits and other assurance engagements.
- Proposed framework to guide PAs in the determination of whether the use of experts is appropriate – the TF proposes to enhance the robustness of the assessment of experts used:
  - o For all experts – Building on the Conceptual Framework, the PA should consider:
    - (a) how the expert will be used and define the scope of the work;
    - (b) identify potential threats for the PA; and
    - (c) evaluate whether the use of the expert is appropriate around competence and objectivity (which is linked to independence)
  - o For external experts used in audit and other assurance engagements – the TF has considered whether the independence “guardrails” should be extended to external experts and concludes that it would strengthen and safeguard their objectivity. 3 possible approaches are suggested:
    - A. Requiring they meet full independence requirements,
    - B. Complying within a limited perimeter (approach analogous to ET/GA out-of-network individuals), or
    - C. Complying with a select set of independence requirements.

The TF’s preferred approach would be C as they consider it balanced. They provide a table with pros and cons, however no reference to PIF elements to assess PI responsiveness of each approach has been included. The IESBA issues paper also offers key provisions that would be required under approach C, such as financial interest, loans and guarantees, business relationships, family and personal relationships, recent services with the client, serving as director or officer of the client, and employment with the client.

They also provide a list of potential questions for the Sustainability roundtables related to the use of experts and ask for feedback on any other question that could be included.

*Public Interest Issues*

Please refer to the [PIOB PI Issues on IESBA projects - December 2022](#) on the External Experts project, as of December 2022, published in the PIOB website.

*PIOB Staff comments on PI*

As noted in our PI issues, the responsiveness of IESBA to start this project addressing the ethical and independence considerations when using experts is very encouraging. The broad scope of the project, encompassing both the preparation and the assurance of information, including sustainability information, is also welcome as the use of experts may have significant implications, not only in the audit/assurance of financial information, but also in its preparation, and even more likely in the preparation and assurance of sustainability information.

Adequately addressing all aspects covered under this broad scope will also be challenging, as the needs (and ethical considerations) of using experts in different areas or fields within a very well established practice such as audit or other assurance engagements performed by PAs might be different to those of sustainability reporting, where the fields of expertise are much wider and, in many cases less developed, and even more on the assurance side, that also needs to be neutral in respect of the provider (not just PAs), as noted in the Sustainability project.

The preliminary approach proposed by the TF goes in the right direction, focusing on the Code's Conceptual Framework and applying an extended framework to external experts that takes into consideration independence requirements. Nevertheless, the conclusion reached on which approach to follow seems to lack clarity on how PI responsiveness has been assessed in reaching that "balanced" approach.

Additional clarity would also be needed on which requirements apply to internal experts vs. external. If an internal expert provides consultation for a matter that is not deemed significant to the outcome of the audit, will they not be subject to any independence requirements, whereas if it was provided by an external expert, would he/she be required to meet at least those requirements in approach C?

The further outreach and roundtables are welcome as this is an evolving and rapidly growing area and views from many and diverse stakeholders are needed and will be very helpful to continue developing the current proposals for audit/other assurance, as well as to start considering those for the use of experts in sustainability reporting and assurance.

#### D - EIOC

The documentation for this agenda item is not available yet at the time this BM has been written. However, according to the documentation distributed for the IESBA meeting in March, the Emerging Issues and Outreach Committee (EIOC) will provide an update and promote the discussion on three themes: FTX Failure, ChatGPT, Fraud. The IESBA documentation includes a number of readings related to those topics, as well as a compilation of jurisdictional developments, prepared with the input of IESBA members.

The objective of the EIOC presentation is to discuss the potential ethical issues (as root causes) of the cases included in the documentation, and the possible relation with/impact on the provisions in the Code of Ethics, as well on other projects (i.e. ISA 240) undertaken by the IAASB. Some of these topics may require future actions by the IESBA.

#### E-F – SUSTAINABILITY

Objective/scope, Background and Status: the Sustainability WG was established in March 2022 and the project proposal was approved in December 2022. The Sustainability work was split in three workstreams: two workstreams within Sustainability (ethics standards for sustainability reporting and assurance (item E – workstream 2); profession-agnostic independence standards for sustainability assurance (item F – workstream 1)), and one separate project for the Use of Experts (see agenda item C).

Workstream 1 (WS1) includes 3 IESBA members and 3 Technical Advisors, while Workstream 2 (WS2) includes 4 IESBA members and 3 Technical Advisors. The scope of the two workstreams/Task Forces is included in agenda items E and F.

#### E – SUSTAINABILITY – ETHICS (WORK STREAM 2)

##### Notes/key points from the review of the documentation for this meeting

The CAG will receive a report back on the project proposal approved at the last IESBA meeting, and its views will be sought on the development of ethics standards for sustainability reporting and assurance. The presentation (item E-1) includes the main updates from the TF.

In addition to the four in-person roundtables planned for late March-April, there will be two virtual ones in mid-April. While the former will be a full-day event, including an

update from the IAASB Sustainability project, the latter will be a 3-hour event. Both will include break-out sessions and report back.

The targeted participants of the global roundtables include different groups of stakeholders: investors, TCWG, regulators, standard setters, assurance service providers (both within and outside the accountancy profession), preparers and academia.

A crucial issue is the coordination with the IAASB and the need to align definitions. For this purpose, the IESBA has been considering the IAASB's approach, as well as the definitions developed by other standard setters (i.e. ISSB and EFRAG). The draft definition of sustainability information, proposed by the WS2 (included in E-1) retains a broad reference to ESG, to short, medium and long term, and intends to be framework neutral. The rationale behind it is to adopt a definition which could be understandable by all stakeholders and assurance providers.

In addition to the definition of sustainability information, at the IESBA meeting in March, the TF will present, for discussion, the definitions of sustainability assurance engagement, sustainability assurance team, sustainability assurance client, sustainability assurance practitioner, professional activity.

While it is clear that the IESBA will be developing profession-agnostic standards for sustainability assurance, it intends to seek strategic input on the decision whether to develop ethics standards also for sustainability reporting.

The issues paper (item E-2) describes the case for developing or not developing profession-agnostic standards for sustainability reporting. It recalls the support from IOSCO, through its statement, on profession-agnostic standards on sustainability assurance, but stresses the fact that there is no regulatory call for profession-agnostic standards on sustainability reporting. The WS2's issues paper provides the pros and cons of revising the Code and setting a common baseline also for non-professional accountants involved in the preparation and reporting of sustainability information. Among the greatest benefits, a higher degree of integrity and reliability of the information which form the basis of the assurance engagements. Among the difficulties in applying the same rules to non-professional accountants, there are the lack of regulatory demand and the differences in the various jurisdictions.

The WS2 concludes that more research is needed. In the meantime, the scope of the WS2 will be limited to ethics on sustainability reporting which affects professional accountants only. The roundtables will be used to gather input and explore whether there is a market demand and whether the IESBA is considered the appropriate standard setter to address it.

Both WS1 and WS2 will be provided input during the IESBA-NSS liaison group meeting which will be held in June.

Public Interest Issues – see below for items E-F

## F – SUSTAINABILITY – INDEPENDENCE (WORK STREAM 1)

### Notes/key points from the review of the documentation for this meeting

Back in September 2022, the IESBA discussed the options for presenting new ethics and independence standards for sustainability assurance engagements: integrated approach (within the Code of Ethics), and stand-alone approach (separate Code).

At this meeting, and at the IESBA meeting in March, the TF will present a narrower number of options for the presentation of the ethics and independence standards for sustainability assurance and its proposed approach (item F-1), with the aim to develop profession-agnostic standards, which are framework-neutral (both from a reporting and assurance point of view). CAG's input will be sought.

The premises for the different options (which will be discussed at the roundtables as well), are: using terms which are relevant both for PAs and other assurance providers; equivalence of ethics and independence requirements as for PAs performing audits of financial statements. PIF qualitative characteristics sought are: comprehensiveness, scalability, clarity, implementability, global operability and enforceability.

Three options are described in the presentation (item F-1), with relevant advantages and disadvantages/risks. To summarize:

- Option 1 – Integrated approach in the Code:
  - Part 1 applicable to PAs and Sustainability Assurance Providers (SAPs)
  - Part 2 applicable to PAIBs
  - Part 3 applicable to PAPPs and SAPs
  - Part 4A applicable to audit, reviews and sustainability assurance engagements; Part 4B unchanged.

The main advantage is one single set of provisions for PAs and other SAPs, while it may add complexity to the independence standards.

- Option 2 – Integrated approach in the Code:
  - A Guide to all users of the Code (new)
  - Part 1 applicable to PAs
  - Part 2 applicable to PAIBs
  - Part 3 applicable to PAPPs
  - Part 4A and 4B as in extant Code

- o New Part 5, ethics and independence standards applicable to sustainability assurance engagements to all SAPs (including PAs)

The main advantage is to have a separate part, while it will create duplication in the Code.

- Option 3 – Standalone approach:
  - o A separate Code of Ethics and Independence standards for Sustainability Assurance Engagements.

Similar advantages as option 2, with the additional disadvantage that it may require a longer time for adoption by jurisdictions, given that the new provisions will be outside the extant Code.

The presentation also includes a high-level overview of the SAPs landscape. Assurance providers (other than PAs) may provide a number of consulting services, they may provide ISO certifications (for GHG emissions), they may provide assurance in compliance with ISAE 3000 or ISAE 3410. Those providers generally do not comply with the Code of Ethics but apply their own Code, less detailed, or abide by different independence statements.

The TF is considering whether threats to independence in Part 4A of the Code could be also applied in the context of sustainability assurance engagements and whether terms in Part 4A (e.g. engagement partner) should be more neutral for all SAPs. Other important aspects being considered are the different relationships (towards audit clients) addressed in Part 4A (e.g. financial interest, business relationship, long association), as well as how NAS provisions could apply in the context of sustainability assurance engagements (e.g self-review threat, prohibition to assume management responsibilities).

The next steps envisaged by the TF include: coordination with global standard setters (e.g. IAASB and ISO) in April/May 2023, a report back on roundtables and preliminary proposed changes in June 2023, a first draft of proposed changes in September 2023, and the approval of an ED in December 2023.

### *Public Interest Issues E-F*

Please refer to the [PIOB PI Issues on IESBA projects - December 2022](#) on the Sustainability project, as of December 2022, published in the PIOB website.

### *PIOB Staff comments on PI for items E-F*

### WS 2 – Ethics

The WS2's conservative approach, to limit the scope of the project to professional accountants only who are involved in the sustainability reporting, may be considered adequate at the moment, given the limited resources and the urgency of the project. However, the input from the roundtables will be crucial and the IESBA will need to react quickly, with the possibility to broaden the scope and include also non-professional accountants in the revised provisions. That would be in line with the approach undertaken by the WS1, which deals with independence provisions affecting all assurance providers (both professional accountants and not).

If common rules need to be applied to all sustainability assurance providers, the same principle should be followed for assurance preparers. It is a difficult goal, as the IESBA Code has its remit on professional accountants only. However, the IESBA will need to explore the possibility to be the global standard setter and may do it through the roundtables and the outreach activities. The IESBA may use the roundtables and the outreach to play a more active role, advocating and promoting the Code of Ethics, as a robust set of ethics and independence rules which can ultimately benefit the integrity of sustainability reporting as well as the quality of sustainability of assurance engagements.

For WS1, it would be helpful to have a timeline of the project, to understand how it will be developed and when its completion is targeted. Time alignment with the WS2 and with the Use of Experts workstream should be sought.

### WS1 – Independence

The options presented by the TF, with their pros and cons, need to be carefully balanced. The elements of the PIF could be used as a preliminary tool to evaluate potential advantages and disadvantages. The IAASB used it, for example, when deciding the approach to develop the overarching standard on sustainability assurance, assessing the characteristics of the PIF which could be matched with the different options. It is important to gather the views of non-PAs, to understand which options would work better and would ensure a broader adoption. It is also essential to assess the feasibility, in terms of timing, and given the resources available, of the different options. In principle, duplication of provisions already existing in the Code should be avoided. Moreover, the potential longer times needed for the adoption of a separate part of the Code, needs to be taken into account and may not play in favor of option # 3 (proposed by the TF).

The IESBA needs to quickly make a decision on the approach/options (whose discussion started last year), to ensure a timely completion of the project. The input from the roundtables will be valuable in that sense. The IESBA will also discuss, at the March meeting, whether to constitute a Reference Group, similar to those created by

the IAASB, with the aim to get input from assurance providers who are not PAs and facilitate wider adoption of the Code.

An important aspect is also the terminology used in the Code. The approach to reach as much as neutrality as possible, is preferable. Consideration of this by the TF is really important, in view of an extension of the Code to non-PAs.

The timing of the ED, planned to be approved in December 2023, should allow the completion of the project by the end of 2024, in line with the IAASB Sustainability Assurance standard (ISSA 5000).

### WS1 and WS2

In mid-February, the ISSB announced that “its initial IFRS Sustainability Disclosure Standards, S1 and S2, will become effective starting January 2024. Given sustainability disclosure is new for many companies globally, the ISSB will introduce programmes that support those applying its Standards as market infrastructure and capacity is built”. “The ISSB will ramp up activities to support the global implementation ahead of issuing inaugural standards at the end of Q2 2023”.

The ISSB’s announcement, and the fact that the European Sustainability Reporting Framework will be effective in 2024, makes the development of ethics and assurance standards even more relevant. The IESBA and the IAASB are pressed more than ever to produce global standards. The IAASB has already revised the timing of the Sustainability Assurance standard (ISSA 5000). The IESBA may need to revise, in the meantime, the expected completion time of the two workstreams. Coordination is crucial, among the SSBs, and within the IESBA TFs, also to avoid duplication of efforts.

Of particular relevance are outstanding matters for discussion, which the WS2 TF has listed in the presentation, such as relationships with audit clients and NAS, to be dealt with in the context of sustainability assurance engagements (vs. audits of financial statements).