

PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of March 2023.

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

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ONGOING PROJECTS

Sustainability

Leadership role in developing ethical requirements and guidance in sustainability reporting and assurance, and timeliness

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, has taken 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 in December 2022.

In response to the market needs and regulatory calls, the IESBA has undertaken two workstreams within the Sustainability project, where ethics and independence requirements for assurance providers (both Professional Accountants and Professionals other than Accountants) are now being developed as a high priority. Ethics requirements for those preparing the information who are professional accountants are also being developed. The current expected date of the approval of the final standard is by the end of 2024, in line with the market expectations. The IESBA is also keeping under active review whether it should develop ethics requirements for those

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preparing the sustainability information who are not professional accountants.

It is in the public interest that both those preparing the information and assurance providers have 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 information such as climate change impact reporting. The 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.

The IESBA is using the Public Interest Framework (PIF) in progressing the Sustainability project and to ensure that a range of public interest perspectives is available and duly weighed.

The IESBA is also using the PIF to assess the advantages and disadvantages of the different options to develop and present the profession-agnostic ethics and independence provisions for sustainability assurance. The PIOB is comfortable with the option preferred at this stage by the IESBA (development of a separate Part 5 of the Code) which seems to be reasonable in terms of clarity and timeliness, but notes that the IESBA is continuing to canvass the options with stakeholders, including through the four global roundtables recently held.

The PIOB also notes the IESBA's consideration of the meaning of "profession-agnostic" and "framework-neutral" standards. The Code of Ethics should ensure robust ethical requirements for all assurance providers.

Role of the Code of Ethics, and engagement with professionals other than Professional Accountants

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 also supports the decision of the IESBA to keep under active review the question of whether ethics requirements for those who prepare the sustainability information could be extended, in the future, to

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professionals other than accountants. Ensuring integrity and trust in the preparation of the sustainability information is the first line of defense in the reporting ecosystem, but the PIOB agrees that this goes in some respects beyond matters of ethics.

The PIOB notes the IESBA's engagement in extensive global outreach as a first step in the project. It acknowledges the IESBA's global roundtables, which were aimed at involving a broad range of stakeholders, including users of sustainability information and professionals other than accountants. The roundtables, as well as the intended constitution of a Reference Group, 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 encourages an expeditious appointment process for the Reference Group, with a balanced and diverse composition.

Coordination with other projects and with the IAASB

It is crucial that the IESBA coordinates its Sustainability workstreams with the Use of Experts project, as well as with the Sustainability Assurance standard (ISSA 5000) being developed by the IAASB. Both Boards have identified this as a critical issue. The approach, terminology, definitions, and the activities undertaken by the two Boards need to be consistent and aligned, to ensure public interest responsiveness of the respective standards.

Moreover, the neutrality and clarity of the terminology in the project should allow professionals other than accountants to understand and apply the relevant provisions.

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 Professional Accountants (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 PAs in business (PAIBs) to encourage and promote the disclosure of tax-related matters by their

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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. PAs in public practice could also encourage their clients to consider including these disclosures to promote transparency. 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.

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.

Use of 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 or assurance opinion requires further ethical and independence requirements, similar to other individuals that are part of the engagement team.

The PIOB welcomes the IESBA's responsiveness on this topic and the approval of a project proposal on the "Use of experts". The PIOB also

Use of Experts

welcomes the broad scope of the project, encompassing both preparation of and assurance on information, including sustainability information, and the IESBA's intention to apply the PIF when developing new requirements.

Framework to assess ethical behavior and independence of experts

The IESBA has asked its task force to use the Conceptual Framework of the Code as the basis for a framework for PAs (and other assurance practitioners) to assess whether the use of an expert (either internal or external) is appropriate for the engagement. The likely threshold at which such requirements would apply is whether the expert will "significantly influence" the outcome of the engagement. The PIOB agrees these are good starting points, which should provide a proportionate and scalable basis on which to identify threats to the Fundamental Principles, as well as to assess the work performed by the expert.

A clear definition of an expert will be needed to ensure that the appropriate ethical and independence requirements are applied to each individual.

In addition, the IESBA needs to consider the extent to which external experts should be required to be independent. Currently, the Code excludes external experts from the independence requirements, but requires an assessment of whether the use of an expert is appropriate for the intended purpose. Moreover, *ISA 620, Using the Work of an Auditor's Expert*, requires that the auditor evaluates whether an external expert has the necessary competence, capabilities and objectivity.

The IESBA should carefully consider the expectations of users of independent audit and assurance reports, as well as the practical challenges of implementation, when assessing whether to extend identified independence requirements to these individuals. The PIF will be valuable in determining what factors to apply to evaluate whether the work of an expert has significant influence over the outcome of the engagement and what independence requirements the expert needs to comply with.

The IESBA should also consider the challenges that may arise in applying the framework and, in particular, a "significant influence" test to a more varied and less established type of expert, such as those who may be used in sustainability assurance engagements.

Additional challenges may arise from the use of different considerations and guidance relating to the expert's work to determine the level of influence

Use of Experts

over the outcome of the engagement for internal experts (from the same organization as the assurance provider) and external experts.

Broad outreach with relevant stakeholders

The PIOB welcomes the inclusion of questions about the use of experts in the IESBA's recent roundtables to gather views on the different sustainability topics. The IESBA's ongoing outreach on this topic should seek views from a diverse range of stakeholders, and especially from those outside the accounting profession, such as investors and other users of financial and sustainability information, as well as from experts themselves. This would give the IESBA a more complete understanding of the expectations and challenges that may arise in practice, and enable the project to be responsive to the public interest in this evolving and rapidly growing area.

Coordination with other projects and with the IAASB

It is in the public interest that the IESBA coordinates the Use of Experts project with its Sustainability workstreams, as well as with the IAASB's Sustainability assurance project and any other initiative the IAASB may take related to ISA 620.

OTHER INITIATIVES/ POTENTIAL PROJECTS

Collective Investment Vehicles and Pension Funds

The revised definition of Public Interest Entities does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code includes a strong encouragement for local bodies to explicitly consider adding PFs and CIVs as categories of PIEs in their own jurisdictions.

The PIOB acknowledges that further research and deeper understanding is needed in respect of PFs and CIVs, as well as their interaction with related entities, and the impact on the provisions of the Code.

The PIOB welcomes the IESBA's commitment in its proposed Strategy and Work Plan for 2024-2027, currently the subject of consultation with stakeholders, to initiate an assessment of these entities, as well as of Investment Company Complexes, in a dedicated project before 2024.