

PIOB’s Public Interest issues: IESBA projects

The PIOB’s recommendations are based on the proposals discussed by the IESBA as of September 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
<p>IESBA’s leadership role in developing ethical requirements and guidance in sustainability reporting and assurance, and timeliness</p> <p>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.</p> <p>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.</p> <p>In response to the market needs and regulatory calls, the IESBA has initiated two workstreams within the Sustainability project, where independence requirements for sustainability assurance engagements (applicable to both Professional Accountants and Professionals other than Accountants) are now being developed (“workstream 1”), as well as ethics requirements for those preparing the information who are Professional Accountants, and ethics</p>

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requirement for assurance engagements applicable to both Professional Accountants and Professionals other than Accountants (“workstream 2”).

The current expected date of the approval of the final standards is by the end of 2024, in line with the market expectations.

Independence requirements for sustainability assurance engagements (workstream 1): clarity and scope

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

The IESBA has also used 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 selected by the IESBA (development of a separate Part 5 of the Code of Ethics). This seems to be reasonable, in principle, in terms of clarity and timeliness, and is also supported by the feedback from the four global roundtables.

The PIOB notes the IESBA’s consideration of the meaning of “profession-agnostic” and “framework-neutral” standards. The Code of Ethics should achieve robust ethical requirements for all assurance providers and, at the same time, use language which is clear and accessible to all practitioners.

Before the Exposure Draft (ED) is approved, the IESBA should ensure that the scope and application of the proposed new Part 5 is clear and easily understandable. This would be in the public interest as, within the same Part 5, there are different aspects of application to consider: on one hand, independence requirements which apply to sustainability assurance engagements which meet certain criteria (developed by WS1); and, on the other hand, ethics requirements which apply to all services provided by sustainability assurance practitioners (both within and outside the accounting profession) to the same sustainability assurance client (developed by WS2).

Clarity in the scopes of the two workstreams, as well as clarity in terms and definitions, which may overlap with the Use of Experts project, are crucial to set high-quality standards. Given the timing of the projects, and the urgency

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to finalize the EDs, the IESBA should stand-back and see how proposals could be simplified (in terms of scopes and in terms of interoperability of all definitions).

Clarity is a fundamental qualitative characteristic of the PIF, which should be taken into account, to assess how the objectives of the proposals, intended to be profession-agnostic, are to be achieved.

This will be a key point of consideration in the IESBA's consultation on the ED, once issued. Practical guidance and material could then be developed, to explain in a non-technical manner, the different types of sustainability engagements which can be performed, the different profiles of practitioners (PAs, non-PAs) which may be involved, as well as the differences among internal experts, external experts, "other practitioners", etc., and the relevant ethical requirements which are applied in the different instances (i.e. objectivity vs. independence).

Ethics for sustainability reporting and ethics for sustainability assurance engagements (workstream 2)

The IESBA has also been considering whether it should develop "profession-agnostic" ethics requirements for those preparing the sustainability information (i.e. for preparers who are Professional Accountants and for preparers other than Professional Accountants). While acknowledging support from its global roundtables, given the current priorities and resources, the IESBA has concluded that ethics requirements for those preparing sustainability information will be developed only for Professional Accountants at this point, whilst guidance may be developed in the future for preparers other than Professional Accountants. Professionals other than Accountants may be, in the meantime, encouraged to apply the provisions in the Code of Ethics.

Ensuring integrity and trust in the preparation of the sustainability information is crucial in the reporting ecosystem, however the PIOB acknowledges that this goes in some respects beyond matters of ethics and the IESBA's mandate, involving corporate governance and regulatory considerations in that respect. Thus, the PIOB supports the need for caution in this area. However, it recommends that the IESBA considers a potential expansion of the remit of the Code of Ethics, in full consultation with key stakeholders, within the new 2024-2027 SWP cycle. This decision should be

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taken as soon as possible, and not postponed to the end of the SWP timeframe.

Outreach

The PIOB recognizes the importance of the IESBA's engagement in extensive global outreach for the sustainability project overall. 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 Professional Accountants. The ongoing outreach, as well as the 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 preparation of information and assurance are provided to a high standard. The PIOB welcomes the expeditious appointment process for the Reference Group, with a balanced and diverse composition in terms of background and geographic representation.

Coordination with other projects and with the IAASB

It is crucial that the IESBA coordinates its Sustainability workstreams, assessing the interoperability of their scopes, with the Use of Experts Project, as well as with the International Standard on Sustainability Assurance (ISSA 5000) being developed by the IAASB. Both Boards have identified this as a critical matter, especially as they are using different timetables for the development and exposure of their respective work. The approach, terminology, definitions, and the activities undertaken by the two Boards ultimately 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.

Use of Experts

Need to consider the independence of experts outside the engagement team

Use of Experts

External experts are explicitly excluded from the definition of Engagement Team both in the IAASB standards (ISQM1 – “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagement” - and in ISA 220 (Revised) – “Quality Management for an Audit of Financial Statements”) and in the revised definition in the Code of Ethics (which is aligned with ISQM1). As a result, these individuals are currently not subject to independence requirements of the Code of Ethics.

Given the growing involvement of experts in areas such as estimates and technology and, in particular, in sustainability reporting and assurance, 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 who are part of the engagement team.

The PIOB welcomes the IESBA’s responsiveness on this topic with the approval of a project proposal on the Use of Experts. The PIOB supports the broad scope of the project, encompassing both preparation of, and assurance on information, including sustainability information. The PIOB continues to recommend the IESBA to apply the PIF when developing new requirements.

Framework to assess ethical behavior and independence of experts

The IESBA needs to consider the extent to which external experts should be required to be independent. As noted above, the Code of Ethics currently 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 the auditor to evaluate whether an external expert has the necessary competence, capabilities and objectivity.

The IESBA is using the Conceptual Framework of the Code of Ethics as the basis for a framework for Professional Accountants (and other assurance practitioners) to assess whether it is appropriate to use the work of an expert (either internal or external) for the engagement, as well as in developing guidance on how to evaluate their competence, capabilities, and objectivity. The PIOB is of the view that these are good starting points to identify threats to the Fundamental Principles, as well as to assess the work performed by

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the expert. However, it is also important to question whether requiring objectivity would be enough to appropriately address the public interest expectations about the independence of external experts used in the audit and assurance engagements. The IESBA should carefully consider and appropriately weigh the expectations of users of independent audit and assurance reports against the practical challenges of implementation, when assessing whether to extend independence requirements for these individuals. In particular, this will be relevant in determining whether more stringent requirements concerning objectivity (as opposed to independence requirements) of external experts would meet those expectations. The PIF will be valuable in making the judgements and balances necessary to help IESBA decide on the requirements experts should comply with.

Clear definitions of expert, external expert, and management's expert are needed to facilitate the appropriate ethical and independence requirements being applied to every individual who participates in an assurance engagement. Moreover, in the latest proposals there are several definitions, which reflect the different functions and roles of individuals involved (in preparation, audit or assurance), such as *internal experts*, *external experts*, *individuals providing consultation*, etc. Considering all these, the overall framework may become complex and there is a risk to lose overall view of the impact of the provisions. It may therefore be challenging to understand in which category an individual may fall and, subsequently, which provisions should apply (i.e. objectivity vs. independence).

The PIOB encourages clarity and consistency, to make sure that all definitions are interoperable and do not conflict.

The IESBA should in particular consider the challenges that may arise in applying the framework to a more varied and less established type of experts, such as those who may be used in sustainability assurance engagements, as a well as the impact on the audit or assurance opinion when multiple experts are used in the same engagement.

Broad outreach with relevant stakeholders

The PIOB welcomed the inclusion of the Use of Experts as a topic in the IESBA's global roundtables to gather views on the different sustainability matters. The PIOB supports the IESBA's engagement to seek views from a diverse range of stakeholders, especially from those outside the accounting profession such as investors and other users of financial and sustainability

Use of Experts

information, as well as from experts themselves. This would give the IESBA a more holistic 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 closely 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 need to take in relation to ISA 620.

Tax planning activities

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 by undertaking a project to develop ethical provisions and associated guidance for Professional Accountants (PAs) (both in public practice and in business) in relation to tax planning activities, i.e. when providing tax planning services or adopting tax planning strategies.

Key Public interest outcomes

The PIOB 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 in relation to tax planning activities;
- Raising the awareness of risks associated with unacceptable tax planning activities;
- Promoting sustainability principles, including transparency, by encouraging appropriate disclosure of tax-related matters in accordance with applicable reporting requirements.

Achieving consistent ethical behavior of PAs in relation to tax planning is a critical outcome and sets high expectations for the profession. The PIOB

Tax planning activities

supports the IESBA's intention to provide an ethical framework for PAs to determine how to identify threats, apply adequate safeguards and report, as needed, in relation to tax planning activities, as well as develop relevant practical guidance on how to apply this framework in particular circumstances.

Before finalization of the project, the IESBA is recommended to assess whether the tax planning provisions in the Code of Ethics achieve the objectives which were set at the inception of the project.

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

Achieving the public interest outcome is 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 in relation to tax planning activities. The IESBA needs 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 acknowledged the ED which proposed two new sections to the Code of Ethics for PAs in relation to tax planning activities, 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, by guiding PAs (both in business and in public practice) to encourage and promote the appropriate disclosure of tax-related matters in the financial statements or other relevant public documents, in accordance with applicable reporting requirements.

The PIOB suggested that IESBA explored the viability of such an encouragement during the consultation process. The PIOB notes the IESBA's consideration of the detailed comments provided by respondents to the

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consultation and acknowledges that the “encouragement” for PAs to document has not been elevated to a requirement.

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 the engagement with those stakeholders and with civil society organizations, tax authorities, and lawyers/other professionals providing tax services through to the finalization of the Code of Ethics changes. The recommendation to continue the targeted outreach is still relevant, since the representation, in the responses to the ED, from organizations beyond the accounting profession was quite limited. The objective is to ensure that existing initiatives and experience are leveraged, and that views are adequately considered in the proposed requirements. At the same time, the IESBA’s engagement with other tax professional organizations may encourage them to develop ethical codes based on the provisions in the Code of Ethics or that are equivalent.

2024-2027 Strategy and Work Plan (SWP)

Projects included in the SWP and transparency

The PIOB notes the feed-back to the Consultation Paper of the 2024-2027 SWP and recommends that the IESBA clearly communicates to stakeholders how decisions on pursuing projects are undertaken, as well as on the basis of which criteria priorities are assigned and relevant resources are allocated. This would address stakeholders’ information needs and would achieve transparency, by making information publicly accessible.

The PIOB strongly supports the “Firm culture and governance” project in the 2024-2027 strategy, as it is an overarching theme which has assumed more relevance in the most recent scandals and unethical behaviour evidenced in firms. The project may help change professional accountants’ behaviour across the full range of professional services provided by firms, including audit, consulting and tax advisory.

2024-2027 Strategy and Work Plan (SWP)

Equally important is the revision of the concept of “audit client” in the Code of Ethics, which affects the perception of the relationship between the audit firm and the client. The IESBA may consider alternative concepts such as “audited entity”, which would better reflect that the beneficiaries of an audit are not the entity itself or its management, but a broader group of stakeholders.

As mentioned within the sustainability project, the PIOB recommends that the IESBA considers a potential expansion of the remit of the Code of Ethics, in full consultation with key stakeholders, within the new 2024-2027 SWP cycle.

Ongoing coordination with the IAASB continues to be crucial for the development of the IESBA projects and their delivery.

OTHER INITIATIVES/ POTENTIAL PROJECTS/RECOMMENDATIONS

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, to initiate an assessment of these entities, as well as of Investment Company Complexes.

Public disclosure of independence requirements of PIEs

The revised definition of PIEs introduced a transparency requirement in para. R400.20 of the Code as follows: “*Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as*

Public disclosure of independence requirements of PIEs

described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders" (emphasis added). The IAASB approved narrow scope amendments to the ISAs to require firms to make this disclosure in the auditor's report, which the PIOB certified, according to the MG recommendations.

The PIOB welcomes the acknowledgement from the IESBA's PIE rollout Working Group to consider how to achieve the public disclosure required in para. R400.20 of the Code when the auditor's report is not made public.