

Observation Memo: IESBA CAG

September 11, 2023

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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 Meeting:

The [IESBA CAG meeting](#) was held in a hybrid format, on September 11, 2023. The meeting was chaired by the IESBA CAG Chair, Gaylen Hansen.

The [meeting agenda](#) was published on the IESBA website in advance of the meeting. This memo's organization follows the ordering of the topics for discussion on the agenda.

The meeting ran smoothly – with approximately half of the participants participating virtually and the other half in person – and allowed for the active participation of all attendees.

Discussion of Meeting Agenda Topics:

Agenda Item (A) – Previous Minutes Approval

Minutes were approved with one change as to the participation of one member was noted incorrectly.

Agenda Item (B) – Sustainability Ethics (Work Stream 2 (Ethics))

Key discussion points:

Sustainability Reporting

- *Roundtables* – Roundtables held over the summer were discussed.
 - One participant noted that there was not a discussion of who participated to ensure a global presence. The IESBA staff noted the roundtables were globally disbursed.

PIOB's Observer comments:

I observed that the findings on Pages 5 and 6 of the meeting preparatory materials appeared reflective of the public interest and seem to have fleshed out the key concerns.

- *Recommendation Regarding Scope of Applicability of Ethics Standards to Professional vs. Non-Professional Accountants* – It was noted by IESBA staff that a decision has been taken not to require the standard to be profession agnostic (i.e., the standard will only be applicable to professional accountants) as this seems to be out of scope for IESBA and challenging to enforce. This is a change from planned and led to a good deal of discussion.
 - Those representing professional accountants indicated the desire for a level playing field. (See observations made by PIOB observer at the end of the IAASB observation memo).
 - Corporate governance participant also highlighted the need for a level playing field.
 - Participants noted that communication on the decision given it is a change from original plan (profession agnostic) is necessary.

PIOB's Observer comments:

As PIOB observer, I noted agreement with those comments on communication.

Sustainability Assurance

- *Recommendation Regarding Scope of Applicability of Ethics Standards to Professional vs. Non-Professional Accountants* –
 - They are recommending Option 2 which states ethics standard would be applicable to all sustainability assurance engagements (SAEs).
 - There was discussion regarding the applicability of the independence standard.
 - PIOB observations:
 - Noted that it wasn't completely clear as to the nature of Option 2 because the nature of "other services" that are being treated differently is not specifically defined and examples would be useful.
 - Not sure what "encourage" means in the application of the standard.
 - Differences in the applicability of ethics and independence requirement was not precisely clear.
 - How would these differences be communicated to users of this information is also not clear.
- *Communication Regarding NOCLAR* –
 - *Financial Reporting vs. Sustainability Assurance Requirement on Reporting of NOCLAR* – There was discussion by IESBA staff of the applicability of NOCLAR communications in the context of financial reporting and sustainability reporting engagements and the differences.
 - *Discussion Topics:*
 - Language clarity regarding duty to "consider" vs. "require" consideration is necessary.
 - When will these NOCLAR items be communicated to shareholders was a point made by an investor participant.
 - It wasn't clear from the discussion the nature of differences in communication requirements between firm and non-network firm requirements.
- *Sustainability Definition* – There was discussion regarding the continued pursuit of alignment of sustainability definitions.

Agenda Item (C) – Sustainability Independence (Work Stream 1 (Independence))

Key discussion points:

The sustainability independence work stream was discussed. The key questions appear to be being considered. Some are challenging – not straight forward and complex issues – to address. Several observations regarding the key topics of discussion:

- Scope of Applicability – There was a discussion regarding the scope of applicability. I noted in my comments that it would be helpful to not only include definitions of “Sustainability Assurance Engagements” – including examples of those subject to Part 5 and within the “other category” – as well as distinguishing them from “Certifying Engagements”. These need to be clearly explained with examples and with the notion of contrast to each other and to existing financial reporting so that this concept is more understandable relative to more well-known requirements related to financial reporting assurance engagements. It would also be useful not only to state which requirements are applicable, but the differences in the independence requirements. These “buckets/categories” and the differences in independence requirements – and the net result is a key element to understand the concepts. It’s one to see there will be differences but another to know what they mean. The corporate governance CAG members comments were well made in this regard and there will need to be education and transparency around these differences.
- Quality Management System – The CAG member comments were useful regarding how this could be or not be applied by non-PAs and who would monitor their application of quality management systems.
- Public Interest Entity Definition – There was a discussion of PIEs not being the same as for financial reporting which was very interesting. CAG member representing professional accountants noted differences in applicability of sustainability disclosures to PIEs in Europe was enlightening– some may perceive the sustainability information and financial reporting information have the same public interest stakeholders but they are not the same.
- Providing Non-Audit Services (NAS) to Sustainability Assurance Clients – There was a discussion of providing non-audit service to sustainability assurance clients.
- Group Sustainability Assurance Engagement – This section was only briefly discussed due to time constraints. I think it may need more discussion to understand the elements of independence to the entity versus the group and the upstream implications.
- Relationship to Value Chain Entities – Entities outside of the reporting entity may not be independent nor have assurance providers who are not independent. They are not proposing any prohibition.

PIOB’s Observer comments:

I noted that these are important issues and that you may find this sustainability assurance will lead to a lot of questions by users/investors/stakeholders and calls for transparency in both the sustainability and traditional financial reporting assurance space. Also noted there may need to be a shift or difference chart highlighting the difference from financial reporting.

Agenda Item (D) – Tax Planning and Related Services

Key discussion points:

This discussion was well organized with a discussion of the marked version of the changes making it easy to understand the effect/impact of the comments received and the resulting changes made. Several topics were discussed a bit more in-depth including:

Replacement of Term Tax Evasion – The removal of the term tax evasion (i.e., as it connotes something not legal) and the replacement/addition with/of description of certain tax planning services to more clearly articulate the concept/principle being addressed was discussed.

Credible Basis – The discussion on credible basis was interesting, but no substantive changes noted. This may be an area of legal challenge in many jurisdictions.

Documentation – The discussion on documentation was interesting as this element is not included in the proposed standard. There may be requirements to do this already in some jurisdictions, in others there will be real aversion to writing these things down by anyone other than a lawyer with privilege as they can be subpoenaed.

PIOB's Observer comments:

As a PIOB observer, I only made one comment related to this project given this stage of the project – that comment being the use of the term “client” throughout the document – particularly when it is used in the public interest section – may be inconsistent with the objective of the standard. Users/investors always ask for removal of the term “client” from standards as in many – not all instances – the auditor/professional service provider has a duty to the company's investors, who are the client, not management which is generally meant by this term. Further, in this standard it seems a bit unusual to tell a PA that their “client” – a term meant to denote an obligation of service and deference – that they have to serve another interest, the public interest, which may include stakeholders with conflicting interests. The company's investors are paying the PA, so you may find that investors who understand this standard may not agree with this obligation. Further, company management may hire those other than PAs (i.e., lawyers) to avoid some of the challenges this standard may create for PAs. There are different views in different jurisdictions on this issue and that some of these requirements exist in law in certain jurisdictions, but there are others where investors – as the party paying for the service may not feel their interests are being served.

Agenda Item (E) – Use of Experts

Key discussion points:

The Use of Experts discussion commenced with a recap of their global roundtables and the key takeaways.

As a result of the roundtables, it was not precisely clear where different types of participants lined up on the issues (e.g., Did users/investors want independence rather than simply objectivity?).

The discussion was a little unclear at the outset because:

- The discussion started with the “Use of the Work of an Expert” vs. the “Use of External Experts in Audit or Assurance Engagements” – without a clear parsing of the need for the distinction, and
- The definitions of “Expert” and “Expertise” which were the first item on the “Proposed Ethical

Framework and Approach” page were not discussed first.

Also making the discussion more challenging was that the slide presentation which commenced the discussion indicated the Public Interest Framework characteristics had been considered, but it was unclear how the characteristics of comprehension, scalability, clarity, implementability, and enforceability relative to:

- The definition of an expert;
- The difference between an expert and those providing advice; and
- The importance to users/investors of the need for independence rather than simply objectivity.

The “Work of an Expert” vs. the “Use of External Experts in Audit or Assurance Engagements” at the commencement of the discussion focused on the fact that the IESBA standard was not going to require independence, but objectivity of experts given the lack of enforceability and the shortage of experts in things like sustainability.

PIOB’s Observer comments:

I raised the public interest issue regarding whether the user/investor/stakeholder participants at the roundtable had stated a preference on this issue. I also highlighted that there wouldn’t be a KAM if an expert was used and if they were not independent, under sustainability assurance. The latter being more of an IAASB issue. It appears there are no great answers here. Any disclosure of the expert lacking expertise may result in the PA providing assurance being able to distance/disassociate from their responsibility to own the need to evaluate the competence, capability, and objectivity (CCO) of the expert as part of their responsibilities. This seems a real challenging issue and one I know investors/users/stakeholders will want to understand.

As it relates to the definition of expert – an issue raised by the PIOB observer at the last meeting – the IESBA is proposing to define everyone who is not a professional accountant or sustainability assurance provider as an expert. Internal auditors would not be considered experts. Essentially all others would be experts. I don’t think we would necessarily disagree with this change as it labels a lot of individuals as experts, so I did not raise any concerns.

They also defined the term expertise as noted in the materials. This appeared rather straightforward.

There wasn’t a discussion of how to determine whether an individual is considered an expert (subject to evaluation of CCO) versus an individual that provides consultation (not subject to CCO, but subject to significant influence evaluation). I raised this issue and there was a bit of back and forth that the difference from an expert is that an expert does work whereas someone who provides consultation just provides advice – and doesn’t do work. The distinction is a bit challenging because if that consultation/advice is relied on, it can change the direction of the PAs work. This is something likely to continue monitoring.

Agenda Item (F) – Strategy and Work Plan (2024-2027)

Key discussion points:

The IESBA staff discussed the feedback from the IESBA 2024 to 2027 Strategic Work Plan (SWP) Consultation. They highlighted feedback on the strategic drivers, strategic themes, and the elements of the Strategic Work Plan – the latter broken down into a discussion of the ongoing



projects, pre-committed items and potential workstreams.

There were 44 responses to the consultation, none from users or investors. (i.e., It is a challenge for them to respond to auditing standard consultations as investors can't see the work of the auditors. It is even harder for them to comment on ethics standards as this is a third derivative from the financial statements (1st being accounting standards and 2nd being auditing standards).) In the future it might be useful to encourage the IESBA to actively seek that input. I did not make this point in the meeting, but it would be useful to note for the future.

There was highlighting of the Monitoring Group observations as part of the discussion.

Interestingly, some of the strategic drivers and themes such a sustainability and technology did not translate into elements of the Strategic Work Plan other than the completion of the ongoing sustainability and expert projects. (i.e., the pre-committed items vs. potential items.)

PIOB observer's comments:

As I noted in my overall comments at the end of the IAASB CAG observation memo, there likely will need to be a monitoring and real-time assessment of implementation issues associated with the adoption of sustainability and expert standards. See also discussion there regarding need to monitor and assess user/investor/stakeholder feedback in 2025 when sustainability information is first formally published.