

# IESBA Observation Memo

New York, 18-20 March 2024

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*Disclaimer: The observers apply their own judgment in identifying and communicating matters of public interest and due process at the meeting, and are 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 observers and do not necessarily reflect or preclude the PIOB Board's position.*

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*Note: The topic of Agenda Item 7 was a revision of the International Education Standards, which the PIOB does not oversee.*

## SUMMARY OF KEY ISSUES FROM THE MEETING

The IESBA meeting was held at the IFAC Offices in New York from March 18 to 20, 2024. One Board member, one consultant to a project, and one technical adviser attended remotely. Due to the unavailability at short notice of the scheduled PIOB observer to attend in person, the PIOB observation role was shared between two PIOB members both of whom attended remotely. All other Board members, the official observers, and other attendees were present in person.

The four primary topics discussed at the meeting were:

- The new project on Firm Culture and Governance.
- An update on the ongoing work on Technology

- Collective Investment Vehicles, Pension Funds and Investment Company Complexes
- The roll-out plan for the Tax Planning and Related Services changes to the Code.

The Board also received updates on IAASB-IESBA Co-Ordination and the revision of the International Education Standards (no observation comment was made in relation to the latter because the PIOB does not oversee the education standards).

All Board members contributed actively to the deliberations.

*Link to the current version of the PIOB Public Interest Issues: [PI Issues on IESBA projects](#)*

## AGENDA ITEM 2 – FIRM CULTURE AND GOVERNANCE

This was the IESBA's first discussion of a new project which was added to the Strategic Work Plan 2024-2027 (SWP) in response to a number of recurring high-profile corporate failures and cases of unethical behavior in firms in a range of countries, including most recently Australia.

### Objective of the Agenda Item:

The objective of the session was to:

- receive presentations on the topic from the Firm Culture and Governance Working Group (Working Group) and external presenters; and
- consider and agree the proposed terms of reference for the Working Group (which had already met on two occasions to finalize its inputs to this meeting).

IESBA members were also asked for their input on the scope of, and approach to, the Working Group's work as presented, including its planned approach to undertake research and extensive outreach with stakeholders.

The Working Group proposed that its terms of reference address five elements, namely:

- a) Gather an understanding of what factors contribute to breaches of ethics and independence requirements in accounting firms and, where applicable, their networks;
- b) Review the extant provisions on organizational and firm culture in Parts 1, 2, and 3 of the Code and consider whether the Code should be further strengthened to bring to the fore the importance of leadership and governance in reinforcing a robust culture of ethical behavior within firms.
- c) Consider whether to recommend that the IESBA commission non-authoritative materials to raise awareness of and emphasize key provisions of the Code;
- d) Raise awareness of the project objectives through outreach activities;
- e) Develop a report and recommendations to the IESBA.

### IESBA Key discussion points

In the introductory session for the meeting (Agenda Item 1), The Chairperson had noted that the shorter agenda for the meeting provided an opportunity for the IESBA to reflect on the difficult strategic issues arising in this project, which she described as a “burning platform” that was already raising a large amount of interest from stakeholders – many of whom had high expectations of the project outcome. The intention of the discussion at this meeting was to ensure the IESBA fully understood the problems giving rise to the project.

The Working Group Chair opened this session by referring to the wide support (including by the PIOB) that the IESBA has received for including the project in the SWP. He noted that the subject matter is challenging, with a need to identify underlying themes which influence ethics and governance across the entire firm and all its service lines. This explained the emphasis on fact finding, rather than seeking solutions at this stage of the project. The Working Group proposed to use a wide range of case studies as the basis for developing its work further.

In keeping with that intention, the Board received three external and one internal presentations before it proceeded to discuss the draft terms of reference. A fifth presentation (scheduled to suit the presenters’ time zone) took place after that. All the presentations were made virtually, followed in each case by extensive questions and answers, and comments by IESBA members.

The first two external presentations provided perspectives from South African and United Kingdom regulators. The Working Group’s consultant then made a presentation that focused on a number of case studies with common characteristics that had led to failures in culture and governance in a range of firms (not just accounting firms) over a number of years. This was followed by an academic presentation. After the discussion of the terms of reference, the final presentation for the day gave an Australian perspective with a particular focus on tax services provided by accounting firms.

The interactions during and after the various presentations showed a keen engagement by Board members with the topic, with a strong focus on the public interest. A number of key themes arose. They included:

- the need to ensure a focus across all service lines of accounting firms, noting that consulting services are in many cases delivered by firm personnel who are not professional accountants (PAs), have a range of cultural norms and behaviors, and do not necessarily fall within the remit of the national regulator;
- the impact that culture and behavior in non-audit service lines can have on audit services (and *vice versa*); and

- the significance that incentives (particularly profit incentives) at the governance level of a firm might have in driving behaviors; and the tendency (especially, but not always, in unregulated service lines) for inaction until a matter reaches the stage of a major scandal (prompting “consequence management” instead of proactive monitoring and oversight).

It was also noted that, while the Code of Ethics predominantly applies to individual PAs, it does have extant provisions on ethical behavior by firms; and that in the context of its sustainability work the IESBA is already exploring ways to make the Code of Ethics applicable to professionals other than PAs.

The discussion of the draft terms of reference endorsed the need to engage in fact finding with a wide range of stakeholders, while not limiting unduly the range of issues the Working Group could look at. Following a number of comments by members, the Working Group proposed to consider the draft terms of reference further and bring a revised draft back to the meeting for approval on the final day.

On day 3 of the meeting, the WG shared revised Terms of Reference with the Board. Board members discussed the edits and gave the Working Group some guidance on how to continue to refine the Terms of Reference.

#### [PIOB Observer’s comments](#)

The Observer confirmed that the PIOB is supportive of this project being taken up as a major strategic priority in the new SWP. The IESBA had acknowledged a strong responsibility to respond to the recurring issues globally with firm culture and governance, and its initial discussion represented a good start.

The Observer noted, however, that the presentations and discussions had raised some conundrums which would continue to provoke thought and challenge the IESBA as it moves into the project. The public interest suggests a need to focus on governance and culture across all service lines of the accounting firm, as well as the interplay between traditional service lines, including audit, and others that are not necessarily undertaken by PAs. Indeed, when it comes to the culture and ethics of consulting services generally, it is apparent that the public interest in addressing them is not limited accounting firms (as has been recognized by the inquiries in Australia).

While the IESBA should not close its eyes to that broader public interest, or prematurely narrow its fact finding work, it would need nevertheless to keep the focus on its own remit, which is “accounting firms”, however defined. But this needed to include the whole firm, including importantly the network dimension; how the firm is governed across all its service lines; and the impact which the non-accounting service lines have on the core work of PAs.

On the other hand, as some contributors had noted the IESBA is looking at how the Code can be broadened for use by providers other than PAs in the context of

sustainability assurance. As the Chair had mentioned during the discussion, the IESBA would need to consider whether that approach could also be applied in this area.

Noting the useful discussion of the draft terms of reference, the Observer drew attention to some definitional issues and inconsistent use of terminology that it would be helpful to address in finalizing them. They included what is meant by “governance” in this context, and to be clear about the conceptual relationship between culture and governance and which drives which (as had been mentioned several times in discussion). The draft terms of reference also referred to “leadership” in connection with “governance”. The relationship between the two terms should also be addressed: a point which had come through strongly in some presentations and comments was about the behavioral incentives at a firm’s leadership level, for example a strong focus on profit tending to be at the expense of wider values driving the firm’s purpose.

Such precision and clarity would be important because, as the Chair had outlined in her introduction to the meeting, there is significant interest in this project and the potential impacts are also significant. The Observer also suggested that the Working Group might consider whether the project’s title might better refer to “governance and culture”, given the recognition by many speakers that it is good governance – in the broadest sense of the term – that sets the expectations and drives culture, not only at the firm level but also by individuals.

These points left the IESBA with two broad approaches it could take to the project, about it was important for the Working Group to be clear:

- driving changes to both the behavior of individuals – PAs and others – within the firm, and the governance structure they work within, seeing the behavior as the driver to structural change in the firm, possibly with different structures in mind; or
- strengthening ethical governance within existing structures based on existing incentives – which would appear more manageable and more directly within the remit, but perhaps less radical in terms of impact.

Finally, the Observer commented on the global context of the work. The presentations had been diverse, but the case studies and the associated regulatory frameworks discussed to date were nevertheless limited to the English speaking world. It seemed important for the Working Group not to be constrained by any predetermined perspective from that limited number of jurisdictions. It can be expected that there will be evolving practices across different jurisdictions. So the work should aim not only at “levelling up” for consistency, but to identify through the application of the public interest lens any new sources of leadership that could merit global adoption. That would be challenging, but important to meeting the expectations of this work.

## AGENDA ITEM 3 – TECHNOLOGY

### Objective of the Agenda Item:

To update the Board on the work of the Technology Experts Group and over matters specifically related to Artificial Intelligence.

### IESBA Key discussion points

IESBA had a presentation with updates on the Technology Experts Group discussions at two recent meetings and a brief discussion of issues that may impact independence and ethics for accountants. Technology issues that were mentioned included Cloud Computing, Cyber Security, Artificial Intelligence, Digital Assets, Blockchain and Quantum Computing. Jason Bradley, Director of Standard Setting and Oversight at the Accounting and Financial Reporting Council (AFRC) in Hong Kong gave a presentation on Artificial Intelligence (AI) and related issues, including potential bias in AI, concerns over the quality of the output from AI and potential overreliance on AI output. There was also a brief overview of some of the AI oversight in jurisdictions around the world ranging from principles-based guidance to legislation regarding the use of AI. A discussion was held on the impact of these issues on ethics and independence.

### PIOB Observer's comments

The PIOB supports incorporation of the aspects of new technologies including the AI, into the standards. It is important to take advantage of the power of new technologies while identifying and mitigating the significant risks associated with those technologies. We will consider updating our current PI issues document for any relevant technology matters after this Board meeting. This is an area where IESBA and the IAASB can coordinate efforts in data gathering and issue identification.

## AGENDA ITEM 4 – COLLECTIVE INVESTMENT VEHICLES, PENSION FUNDS AND INVESTMENT COMPANY COMPLEXES

### Objective of the Agenda Item:

To update the board on the work of the project team to gather data about these vehicles and the relationships of the parties involved with these entities.

### IESBA Key discussion points

IESBA received a report and presentation from the staff regarding the progress that has been made to date to consider whether and how to include Collective Investment

Vehicles, Pension Funds and Investment Company Complexes into the Code as Public Interest Entities for independence purposes. The staff did research primarily in Australia, South Africa and the United States to understand the relationships with these entities and their trustees, managers and advisors. The project team will continue to explore the concepts underlying the definition of “assurance client” to inform its future recommendations to the board related to these investment schemes. The team will continue to research these vehicles in other jurisdictions and perform other outreach in order to present its findings at the June IESBA meeting. The team plans to present its recommendations to the Board in the second half of 2024.

#### PIOB Observer’s comments

The PIOB supports the activities of IESBA to bring further guidance and clarity into the Code regarding these entities and their complex relationships. We support the Team’s work in gathering data and reaching out to stakeholders on this important topic.

## AGENDA ITEM 5 – TAX PLANNING AND RELATED SERVICES

### Objective of the Agenda Item:

To gather feedback from IESBA members on the planned approach to promote the release of the Tax Planning and Related Services final pronouncement, and related engagement with stakeholders.

The new standard was approved by the IESBA in December 2023, and is on the agenda for certification by the PIOB at its April 2024 meeting.

### IESBA Key discussion points

The IESBA received a staff presentation on the rollout plan that outlines coordinated strategies for raising awareness of, and promoting, the final pronouncement. The former Task Force Chair was also in attendance.

The plan included objectives, key dates, audiences, opportunities, messaging, timelines, and planned communication mechanisms (including the use of webinars, video clips, direct engagement, and pre-existing engagements). Brunswick Group (an international communications company) had been engaged to assist the IESBA in this work.

IESBA members were supportive of the roll-out plan. Particular comments were received about the importance of bringing the changes to the attention of stakeholders beyond the accounting profession, including the legal profession and others involved in providing tax advisory services to the public. The former Task Force Chair acknowledged this had been a priority for the Task Force throughout the project, and he briefed the IESBA on future steps to ensure continuing engagement with the legal profession in particular.

### PIOB Observer's comments

The Observer confirmed that the certification of this standard will be on the agenda of the PIOB April 2024 board meeting. Assuming certification takes place, the key question during the roll-out and implementation of the new standard will be whether it achieves the intended change of behavior of PAs as envisaged at the outset of the project. A timely post-implementation review will be important, and I acknowledged this was already in the IESBA's sights.

The Observer also noted that, although these changes to the Code are addressed only to PAs, they have been referred to as a benchmark for other members of the tax advisory community. As the former Task Force Chair had acknowledged, it will be relevant and in the public interest for the post-implementation review to understand what take-up or parallel initiatives have occurred among those other professions.

The Observer also commented on the importance of the IESBA's communications placing the changes in their full context, including their relationship with other elements of the Code. These included in particular the Fundamental Principles and the Role and Mindset provisions; as well as the recent limitations on firms providing non-assurance tax services to audit clients.

Moreover, the Observer encouraged the IESBA to consider some of the issues arising from its earlier discussion at this meeting of firm culture and governance (Agenda Item 2). This had included a recognition that tax planning and other advisory services could be affected by firm culture and the ethical stance of the firm's members. The extant Code provisions on this topic were therefore important as context. Some of the discussion had also stressed the importance of early recognition of "things going wrong" rather than waiting for a scandal to develop. This can be expected to happen from time to time with major tax schemes (even with the benefit of these Code changes). It was therefore important to stress the mechanisms that already exist to ensure that tax planning and advisory services are provided within an appropriate culture and governance structure in the firm, enabling practitioners and firms to identify the risks and mitigations. The NOCLAR provisions of the Code, as they apply to individual PAs in such circumstances, were a further point of context.

## **AGENDA ITEM 6 – IAASB-IESBA CO-ORDINATION**

### Objective of Agenda Item:

To discuss the coordination of efforts between IESBA and the IAASB on Sustainability matters.

### IESBA key discussion points



There was a discussion of the key areas where the IESBA and IAASB are working to coordinate efforts in the Sustainability area. IESBA had lengthy discussions on certain areas including quality management and the use of the term “at least as demanding” when looking at the system of quality management. The Board considered options such as following ISQM 1, following local laws and regulations or whether the assurance practitioner could determine whether their system of quality management was at least as demanding. There was also discussion on the use of other practitioners, the use of experts, either internal or external and group engagements. There was general agreement that IESBA and IAASB needed to be complementary in the guidance that they issue in this area.

#### PIOB Observer’s comments

The Observer supported the coordination of IESBA and the IAASB in these important areas. It is important that the standards are drafted consistently so that they will be applied consistently. There will be future discussions on this topic at the IESBA.

## AGENDA ITEM 8 – PIE ROLLOUT

### Objective of the Agenda Item:

To discuss specific Questions & Answers (Q&As) related to the recent PIE provisions and consider whether any revisions to the Code are necessary.

### IESBA Key discussion points

The Working Group presented several Q&As to the Board related to the roll-out of the PIE provisions of the Code. In each case, the WG discussed the Q&As and asked the Board whether anyone felt there was a need to review the Code to clarify these matters. It was the recommendation of the Working Group that no revisions to the Code were necessary. Board members agreed with this recommendation.

### PIOB Observer’s comments

No Public Interest issues were raised with the topics discussed and the proposed recommendations.

## CONCLUDING OBSERVATION COMMENTS

At the end of the meeting, the Observer present thanked the Board and the staff for their active involvement in the meeting and for keeping the Public Interest top of mind throughout the meeting.