

PIOB’s Public Interest Issues - IESBA projects

(document updated as of May 2024)

The PIOB’s Public Interest Issues presented in this document are based on the status of IESBA’s projects after the IESBA March 2024 and PIOB April 2024 board meetings. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IESBA to consider these questions and concerns during the due process of developing the relevant standards.

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

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Use of main acronyms

PIOB	Public Interest Oversight Board
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
Code	The IESBA's Code of Ethics
ED	Exposure Draft

1. SUSTAINABILITY REPORTING AND ASSURANCE

Background

With growing global demand for sustainability reporting users need to be confident with respect to the reliance they can place on such reports. Therefore, the topic of sustainability reporting and assurance has been included in the agenda of international standard-setters¹. The IESBA has taken a leadership role to identify key ethical and independence challenges that arise from activities and services related to the preparation and assurance of sustainability reports and to develop appropriate new standards accordingly. Two workstreams (WS) within the Sustainability project were initiated by the IESBA:

- WS-1 which deals with independence requirements for sustainability assurance engagements applicable to both professional accountants and to practitioners other than professional accountants,
- WS-2 which deals with ethics requirements for:
 - professional accountants preparing the sustainability information,
 - professional accountants and other practitioners providing assurance services on the sustainability information.

Status

In December 2022 the IESBA approved a relevant project proposal referred to as "Revisions to the Code Relating to Sustainability Assurance and Reporting". At the end of January 2024, the IESBA published an ED on the basis of the two workstreams with a 10 May 2024 deadline for comments. The Public Interest Issues described below have been updated during the period when the IESBA is in the process of analyzing comments on the EDs. Further changes to the proposed standards can

¹ *The PIOB notes the following public interest matters beyond the remit of the IESBA. It is in the public interest to have a global standard, set with a robust level of public interest oversight, and to avoid fragmentation and potential market confusion in respect of the work effort and the level of assurance provided by different professionals on sustainability reports. Regulators and those charged with governance have a role in ensuring that preparers of the sustainability information as well as assurance providers have the appropriate skills and experience and comply with ethical and assurance standards.*

therefore be anticipated. The Sustainability project is expected to be completed by the end of 2024, in line with market expectations.

1.1. Clarity of the standard and consistency within the Code and with the IAASB

In the context of IESBA's development of a robust, "profession-agnostic" and "framework-neutral" ethical standard for all sustainability assurance providers, the revisions to the Code of Ethics must be made in language which is clear and accessible to all. We welcome the IESBA's commitment to this objective and look forward to the outcome of the consultation exercise, specifically regarding the views of stakeholders who are not professional accountants.

Clarity of definitions and terminology in the new standard is critical with respect to areas such as the different types of sustainability engagements which can be performed and the different profiles of practitioners (professional accountants and non-accountants) which may be involved. In this way, the relevant independence, objectivity and other ethical requirements can be appropriately applied, with interoperability as needed and avoiding complexity. This will serve the intended purpose of the standard and provide the transparency which users expect. Practical guidance and material to give examples will further support the objective. We note the link to the Use of Experts project (see 2.1 below) with which there is a need to ensure consistency.

The PIOB has welcomed that, in pursuing their sustainability projects, both the IESBA and the IAASB have identified the need for coordination as a critical matter, especially as they have different timetables for the development and exposure of their respective work. Alignment between the two boards is needed for clarity and consistency in approach, terminology, definitions, and concepts. A coherent set of global ethical and assurance sustainability standards will avoid practical implementation challenges and better serve the public interest. The PIOB is of the strong view that only in exceptional instances should there remain inconsistencies between the two boards' respective standards.

1.2. Scope of new Part 5 and applicability of Part 4B of the Code

While it was decided by the IESBA to develop a separate Part 5 of the Code, which covers specific types of assurance on sustainability reporting, it is not sufficiently clear from the proposed new provisions whether professional accountants are expected to also follow Part 4B of the Code for such assurance services. On the other hand, it is unclear whether other practitioners who are not professional accountants are subject to independence requirements of Part 4B for those assurance engagements that are not covered in Part 5. From the market point of view, consistency is needed for all sustainability assurance providers (i.e. both professional accountants and other

practitioners) to be subjected to the same requirements, which should be one of the key considerations for the IESBA to address in being responsive to the public interest.

1.3. Proportionate independence requirements for value chains

The IESBA has recognised the importance of avoiding the risk that independence requirements on assurance providers of sustainability information are unimplementable on a practical basis throughout an entity's value chain. The risk of disproportionality arises because assurance providers may have little control over their independence from other entities in the assured entity's value chain, which may in many cases involve a high proportion of the assured entity's sustainability information. For example, the value chain of a bank is partly represented by entities to which it provides loans. The PIOB notes that the ED included this as a key issue for the IESBA to address, while not diminishing the level of independence required by the public interest.

1.4. Independence and categorization of sustainability assurance

The PIOB welcomes the fact that the IESBA is undertaking further consultation to consider the categorization of sustainability assurance engagements as this relates to independence requirements. Specifically, the IESBA is considering whether sustainability assurance fees should be treated in the same way as statutory audit fees, noting that sustainability assurance may not be a statutory requirement in some jurisdictions, or, alternatively, as fees for non-audit services. Categorizing sustainability assurance fees as non-audit services in a case where the sustainability assurance and financial audit are performed by the same assurance provider would require implementation of provisions on threats to his independence. There do not appear to be grounds for such independence concerns, given the compatibility in principle between sustainability assurance and financial audit, both of which are assurance services.

2. USE OF EXPERTS

Background

In light of the growing involvement of experts outside of the audit engagement team in areas such as estimates, technology and, in particular, sustainability reporting and assurance, the PIOB supported the IESBA's decision to assess the appropriate levels of independence requirements considering the nature of their work and contribution. Currently, external experts are explicitly excluded from the definition of engagement team in the Code, and therefore these individuals are not subject to any independence requirements of the Code. It is important to address how a professional

accountant should assess whether it is appropriate or not to use the work of an expert for the engagement and how to evaluate competence, capabilities, and objectivity of such experts.

The PIOB has welcomed the IESBA's responsiveness on this topic and the broad scope of the project, encompassing both the preparation of, and assurance on sustainability information. The PIOB also emphasised the importance of the global outreach roundtables seeking views from a diverse range of stakeholders, especially from outside the accountancy profession.

Status

At the end of January 2024, the IESBA published an ED with a 30 April 2024 deadline for comment letters. The Public Interest Issues described below have been updated during the period when the IESBA is in the process of analyzing comment letters in respect of the issued ED. Further changes to the standard can be expected depending on the feedback from comment letters. The project is expected to be completed by the end of 2024.

2.1. Clarity of the standard and its consistency within the Code and with the IAASB

The PIOB has emphasized the importance of clear definitions to ensure that ethical and independence requirements are appropriately applied to all relevant individuals. This requires consideration of categories such as "internal experts", "external experts", and "individuals providing consultation" to understand in which category an individual falls in given circumstances. As the direct application of independence requirements on external experts who are non-professional accountants would not be operable and enforceable, a new concept of requirements concerning objectivity has been introduced. Clarity in the definitions is critical to determining whether the new concept concerning objectivity meets the expectations of users of external audit and assurance reports. Equally, it is integral to ensuring the accessibility and interoperability of the Code as a whole.

The PIOB encourages the IESBA to ensure close coordination between the Use of Experts and the Sustainability projects, as well as with the IAASB's Sustainability assurance project. This coordination is vital for alignment, especially of definitions and terminology and the avoidance of confusion and inconsistent application. The PIOB is of the strong view that only in exceptional instances should inconsistencies be allowed to remain between the two boards' respective standards.

3. FIRM CULTURE AND GOVERNANCE

Background

This is a new project included in the Strategy and Work Plan 2024-27 due to a clear need to respond to persistent cases of unethical behavior within firms and to consider the broader issue of firm culture and governance and how these might impact the ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

Status

Work on this topic commenced recently and was the most significant topic of the March 2024 IESBA meeting, with approval of work objectives and Terms of Reference, as well as a number of presentations and discussions. The Public Interest Issues outlined below reflect the fact that the project is currently in its initial fact-finding phase.

3.1. Scope and goals of the project

While recognizing the importance of fact-finding, the PIOB encourages the IESBA to clearly articulate the risks impacting the public interest which the project intends to address and specifically the behaviors which give rise to such risks. This articulation will focus the fact-finding and support the scoping of any proposed sections of the Code to be developed or revised. In turn, this will help ensure that the Code can be enhanced in a timely way within the timeframe of the Strategy and Work Plan 2024-2027.

It will be important for the IESBA to clarify whether it aims to pursue changes to both the behavior of individuals of whatever background within firms and the governance structures that they work in, seeing the first as the driver to structural changes in governance, or ethical behavior within existing governance structures. The latter would appear to be more manageable in the timeframe of the current Strategy and Work Plan and directly within the IESBA's remit.

The PIOB encourages the IESBA to consider all service lines of the firms, including audit, rather than a narrow starting reference to audit firms which then gives rise to consideration of other service lines. In this way, the project will more completely address the "firms" as the market-facing multi-service providers they are in reality. It could thereby take into consideration the interplay between traditional service lines such as audit with others that are not necessarily undertaken by professional accountants. Equally, it is important to cover arrangements within and across jurisdictions often housed under "network" arrangements.

The PIOB supports a wide fact-finding but cautions against potential distraction into matters outside the remit of the IESBA. Consideration of the diversity of market experiences across jurisdictions is important. Case studies relating to a limited number

of national frameworks are useful but must not unduly influence the standard-setting process by constraining consideration of potential amendments of the Code for global benefit.

3.2. Achievement of behavioral changes

Clearly defined objectives of the project should be aimed at instilling behavioral changes in specific areas through focused amendments of the Code. In scoping those objectives, the PIOB encourages the IESBA to focus on factors which contribute to unethical behavior, and the pursuit of targeted amendments of the Code to achieve behavioral change, rather than “compliance” steps. It appears to be in the longer-term public interest to build on the fundamental ethical principles of the Code.

4. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS

Background

The revised definition of “Public Interest Entity” (completed in 2022) does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code contains a strong encouragement for local bodies to explicitly consider adding CIVs and PFs as categories of PIEs in their own jurisdictions. The PIOB supported this approach as the PIE definition was revised in 2022, regarding this as appropriate at that point in time. Equally, the PIOB supported the IESBA’s intention, at the time, to undertake further research activities in respect of CIVs and PFs, specifically with respect to their interaction with related entities, and relationships with and between trustees, managers and advisors.

Status

In line with the approved Strategy and Work Plan for 2024-2027, the IESBA had a first discussion of the CIVs and PFs project at the March 2024 Board meeting, presenting initial findings of its first steps in researching this topic to gain a deeper understanding. It is noted that this project will be the first to be pursued via the staff-driven model which is part of the transition of the Standard-Setting Boards under the Monitoring Group recommendations. Therefore, the Public Interest Issue considerations below reflect the fact that the project is in its initial fact-finding phase.

4.1. Potential Incorporation of Collective Investment Vehicles and Pension Funds into the Code

The PIOB supports the IESBA’s activities to identify whether, and if yes, to what extent, there is currently a public interest “gap” in coverage of the Code – i.e. risks arising from the absence of the specific independence provisions addressing audits of CIVs

and PFs. It will be important to ensure that risks to the public interest are clearly articulated so that any eventual proposed revisions to the Code are tailored appropriately, also with scalability in mind, in order that they meet the public interest without unintended consequences.

5. POTENTIAL EXPANSION OF THE SCOPE OF THE CODE OF ETHICS

Consideration of the potential expansion of the impact of the Code, including possibly expanding the scope and application of the Code, is part of the IESBA's 2024-2027 Strategy and Work Plan, which the PIOB concluded in April 2024 has been developed in a manner consistent with agreed due process and is responsive to the public interest. It is important to reflect carefully on possible approaches to extending the impact of the Code to professionals other than accountants, who might not be required to comply with the expanded Code if it is not adopted by specific jurisdictions. This will necessarily take time and resources. It is also important to consider the potential impact on the Code where professional accountants are concerned, as any expansion of the scope would necessarily require more universal language to allow other professionals to understand and apply the Code.

In summary, careful consideration about whether and how to expand the scope of the Code is needed. Any decisions will have to be based on clear conclusions from robust engagement with investors, users, regulators and other stakeholders both within and outside the accountancy profession about their acceptance of the expanded Code through its adoption in various jurisdictions.