



PIOB'S PUBLIC INTEREST ISSUES: IESBA PROJECTS

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

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

Update of this document: August 28, 2023

ONGOING PROJECTS

Sustainability

IESBA's 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

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Accountants and Professionals other than Accountants) are now being developed as a high priority. The project includes developing ethics requirements for those preparing the information who are Professional Accountants.

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

Ethics for Sustainability assurance

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

The IESBA has also used the Public Interest Framework 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). This seems to be reasonable 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.

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

Although the Code of Ethics is written for 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.). This recognizes that it is in the

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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 decision by the IESBA to start work on a new Part 5 in the Code is the first step to achieve this objective.

In developing Part 5, it is important that the IESBA clarify the scope and the conditions for the application of the new Part 5. Similarly, it would be beneficial for the Code to explain the differences, in terms of stringency of independence requirements, when applying the Part 5 provisions versus independence requirements elsewhere in the Code (i.e. part 4B – independence requirements for assurance engagements other than audits and review engagements).

The PIOB recognizes the importance of the IESBA's engagement in extensive global outreach 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 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 all assurance is 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 with the Use of Experts Project, as well as with the International Sustainability Assurance Standard (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

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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.

Ethics of sustainability reporting

The IESBA has considered whether it should develop ethics requirements for those preparing the sustainability information who are not Professional Accountants. In response to the input from its global roundtables, and given the current priorities and resources, the IESBA has concluded that ethics requirements for those preparing sustainability information will be developed only to apply to Professional Accountants, 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 agrees that this goes in some respects beyond matters of ethics and the IESBA's mandate, involving corporate governance and regulatory considerations in that respect.

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,

Use of Experts

these individuals are currently 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 who 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 welcomes the broad scope of the project, encompassing both preparation of, and assurance on information, including sustainability information. The PIOB continues to encourage the IESBA to apply the Public Interest Framework 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 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 intending to use the Conceptual Framework of the Code 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 agrees that these are good starting points, which should provide a proportionate and scalable basis on which to identify threats to the

Use of Experts

Fundamental Principles, as well as to assess the work performed by the expert.

The PIOB encourages the IESBA to 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 evaluating objectivity (and not independence) of external experts would meet those expectations. The Public Interest Framework will be valuable in making the judgements and balances necessary to help IESBA decide on the independence requirements experts should comply with.

Furthermore, clear definitions of expert, external expert and management's expert will be needed to facilitate the appropriate ethical and independence requirements being applied to every individual who participates in an assurance engagement. Clear guidance is also required on when an expert is considered to be an external expert versus an individual that "*provide[s] consultation regarding technical or industry-specific issues, transactions or events for the engagement*", the latter being subject to the same independence requirements as others in the audit/engagement team.

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.

The PIOB welcomes that the IESBA is no longer considering the proposed "*significant influence test*" on the outcome of the engagement, to determine the framework applicable to external experts, as this could create additional implementation challenges.

Broad outreach with relevant stakeholders

Use of Experts

The PIOB welcomes the inclusion of the Use of Experts as a topic in the IESBA's recent roundtables to gather views on the different sustainability matters. The PIOB encourages the IESBA to continue its outreach on this project and 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 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 related to ISA 620.

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 by 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

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:

Tax planning and related services

- 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 is 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 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 acknowledges the approved exposure draft which 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".

Tax planning and related services

The PIOB notes that the proposed text could go further in promoting transparency and good governance, by guiding professional accountants in business (PAIBs) to encourage and promote the disclosure of tax-related matters by their employing organization in the financial statements or other relevant public documents, given the expectation in 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. Professional Accountants in public practice could also encourage their clients to consider including these disclosures to promote transparency.

The PIOB encouraged the IESBA to explore the viability of such an encouragement during the consultation process. The IESBA has also suggested to consider whether the Code should include a requirement for the Professional Accountants to document their application of ethical considerations in tax planning. The PIOB looks forward to the IESBA's consideration of the detailed comments provided by respondents to the consultation, in finalizing the project.

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 through to the finalization of the Code changes. The objective is to ensure that existing initiatives and experience are leveraged, and that views are adequately considered in the proposed requirements.

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, 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.

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 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). In June 2023, the IAASB approved narrow scope amendments to the ISAs to require firms to make this disclosure in the auditor's report.

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, not addressed by the IAASB provisions.