



### PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of December 2021.

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

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### ONGOING PROJECTS

#### Definition of PIEs

##### Importance of the definition of PIE

The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the Code (and the ISAs), such as NAS and Fees.

The PIOB has conveyed since the start of this project that the global definition of PIE should be broad enough to capture all entities with a public interest, due to their impact on society (e.g. financial institutions, listed companies, significant utility companies), both through the global applicability of the Code of Ethics and as those defined by local regulatory and legislative bodies in their own jurisdictions. The definition should also enable consideration to be given to any other entities outside the financial sector that could pose a threat to financial stability, to ensure that the definition achieves the overarching objective and that there are no evident gaps. The PIOB notes that one of the factors included in the pronouncement approved by the IESBA<sup>1</sup> to determine the extent of public interest of an entity is "the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity".

The PIOB also notes the overarching objective approved by IESBA that reflects the "significant public interest in the financial condition" of these entities and that the purpose of having differential requirements is to "meet the heightened expectations of stakeholders", "thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition".

<sup>1</sup> The IESBA approved the "Definition of Listed Entity and PIE" in December 2021. The provisions will be submitted to the PIOB for approval in April 2022.

### **Definition of PIEs**

The PIOB welcomes the approach followed by IESBA setting a broad approach to defining PIEs, with an extended list of factors that help define these entities and an expanded list of entities categorized as PIEs within the Code. This list can then be further refined and extended by local regulatory bodies and further expanded by audit firms, if applicable. The PIOB agrees that this approach allows to consider scalability and may facilitate consistent application across different jurisdictions.

### **Categories of PIEs**

The PIOB noted the concerns raised by some stakeholders in response to the ED about whether the broad approach should include all of the proposed categories of PIEs, in particular pension funds and collective investment vehicles. The PIOB acknowledges IESBA's assessment of stakeholder concerns including potential implementation issues, and that these categories would need to be further refined or clarified to address the concerns. However, the PIOB considered that the removal of both of these categories would not be consistent with the qualitative characteristics of PIE underlined in the ED. These entities, even when they are small in size, can generate significant interest in their financial condition given that they exercise fiduciary responsibilities of the general public or a limited group of investors and pensioners, can have a significant systemic impact in the economy due to the nature of their business, and are in many jurisdictions regulated or subject to supervision (all of which are factors included in paragraph 400.9 of the Code to consider an entity as a PIE).

The PIOB notes the additional analysis carried out by the IESBA and the proposed actions to address the concerns raised by the PIOB before the approval of the pronouncement by IESBA, including the strong encouragement in the Code for local bodies to explicitly consider adding pension funds and collective investment vehicles as categories of PIEs in their own jurisdictions.

The PIOB acknowledges that further research and deeper understanding is needed in respect of pension plans and collective investment vehicles, as well as their interaction with related entities, and the impact on the provisions of the Code. The PIOB recommends the IESBA to initiate an assessment of these entities in a dedicated project as soon as possible, and notes that a holistic review of post-employment benefits and CIVs might be started by the IESBA in the remainder of its 2022-2023 Work Plan.

### **Transparency needed on the entities treated as PIEs**

### **Definition of PIEs**

Transparency is key to ensure there is certainty for the users of the audit report and financial statements on the rules applied to an entity and to achieve enhanced confidence in the audit of PIEs. The PIOB welcomes the provision approved by the IESBA that requires firms to disclose the application of the independence requirements of PIEs and urges both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users. The PIOB notes that the options for achieving this include disclosure in the auditor report.

### **Coordination with the IAASB**

The PIOB notes the coordination between the IESBA and the IAASB, which is of critical importance to ensure alignment of the ISAs and Quality Management standards with the Code of Ethics and the application of the two sets of standards consistently.

### **Technology**

The use and impacts of technology is one of the most important issues the profession is facing. The pervasive nature of technology, and its broad and exponentially growing use, pose significant ethical challenges which it is in the public interest for the IESBA to address in a comprehensive and timely manner. COVID-19 effects and the accelerated adoption and development of technology are additional reasons for urgency.

The PIOB appreciates the extensive and careful work done to date on the topic. It welcomed the IESBA's establishment of a Technology Working Group (TWG) which focuses on developing non-authoritative guidance, fact finding and thought leadership, to complement the work of the Technology Task Force (TTF) which focuses on the Code and relevant changes needed.

### **The need for an ethical framework for the understanding and use of technology**

The PIOB welcomes the IESBA's consideration of the ethical implications of a professional accountant (PA) using, or encouraging their clients to use, technology which may be more complex than the PA can understand, or about which they have insufficient knowledge to comply with the fundamental principles of the Code. It is important that the Code signals clearly the level of

### **Technology**

competency, and the nature of professional judgement, that are needed to ensure an ethical approach.

It is similarly in the public interest for the IESBA to address within the Code, and supported where appropriate by guidance, how to evaluate ethical threats and biases when audit practitioners and firms use automation and artificial intelligence to perform audit procedures.

### **Independence issues and IT Services in the NAS Section of the Code**

The PIOB appreciates the Task Force's proposal in the ED to consider the sale or licensing of technology by audit firms or network firms to audit clients as potential non-assurance services and, as such, subject to independence requirements in the NAS section (600) in the Code (prohibition to provide those services when a self-review threat might be created).

The PIOB also notes the clarifications and enhancements in the Code related to IT services. The proposal in the ED, to include data hosting services to audit clients as an example of management responsibility, falls short of a straight prohibition of these IT services (which are listed in the application material rather than in the requirements). The PIOB looks forward to seeing the views of stakeholders on this point.

### **Effective co-ordination of effort is important for timely progress**

Co-ordination between the TWG and the TTF will be critically important to the IESBA's responsiveness on this issue. Timely progress remains a critical matter of public interest.

### **External engagement needs to be broadened**

A critical factor in ensuring responsiveness to the public interest is the nature and extent of stakeholder engagement. The surveys conducted by the TTF in 2020 ("Technology and complexity in the professional environment" and "The impact of technology on auditor independence") show an imbalance in the input received, where the majority of respondents belong to the audit profession and there is a very low level of participation from investors, regulators and other stakeholders.

It is essential to obtain views from a broader and more complete group of stakeholders, in accordance with the PIF. To achieve this, the PIOB recommends the IESBA to conduct further, and if necessary targeted, outreach with the user

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community (including investors), regulators, corporates (including Those Charged With Governance), technology providers and data science experts, and non-financial standard setters. The PIOB notes that targeted outreach has been conducted by the TWG with a number of groups, such as Those Charged With Governance, Public Sector organizations, PAIBs and Technology companies. The input from a broader range of stakeholders (including investors and regulators) should be solicited from the upcoming consultation (Technology ED).

The PIOB also notes the proposed establishment of a Technology Advisory Group (TAG) in connection with the TWG, which brings an opportunity to obtain relevant and timely input from external experts and National Standard Setters in an area that is in constant development. It will be important for the TAG to have a sufficiently broad range of participants and a clear remit.

## Working with other projects and the IAASB

The pervasive nature of the technological challenges also raises the need for broader co-ordination, including with other IESBA projects (such as Tax Planning) and the IAASB.

## Engagement Team and Group audits

### Definition of Engagement Team and opportunity for the IESBA to strengthen independence requirements in the Code

The PIOB welcomes the coordination efforts between IESBA and IAASB to align and simplify the definitions of Engagement Team in the Code.

The interaction of multiple definitions, individuals with different characteristics, consideration of entities as PIEs or non-PIEs, related entities and component auditors, requires careful consideration as it may have consequences on auditors' and firms' independence.

The PIOB encourages IESBA to take the opportunity not only to improve the definitions in the Code, but to strengthen independence requirements around component auditors outside the network and the associated responsibilities of the group engagement partner. The interactions of multiple definitions, individuals with different characteristics, consideration of entities as PIE or not, related entities and components can add unnecessary complexity to the provisions. Despite that, the standard needs to be clear and understandable to be in the

### **Engagement Team and Group audits**

public interest. Implementation guidance may be necessary to ensure consistent application of the provisions.

The PIOB welcomes the upcoming consultation on the approved ED and encourages the IESBA to seek responses from stakeholders with a special focus on clarity, ability to be consistently applied globally and enforceability of the proposed provisions.

See additional comments below related to the independence of external experts.

### **Ultimate responsibility for the group audit and effective coordination with component auditors in relation to independence**

The PIOB notes the importance of enhanced communication within the group engagement team and confirmation of the group engagement partner's ultimate responsibility in respect of independence matters. In particular, the coordination of the proposals in the Code and those of ISA 600 requiring: a) strong communication within the group engagement team, particularly between component auditors and the group engagement partner; and b) clarity about the group engagement partner's responsibilities, will create consistency, in line with the PIOB's recommendations in relation to the revision of ISA 600, Group Audits.

The PIOB acknowledges the inclusion of a cross-reference to ISA 600 (revised) and the group engagement partner's responsibility for "confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence...". The PIOB also welcomes the alignment with ISA 600 (revised) of the specific requirements for situations of breaches of independence of component auditors and the roles and responsibilities of the group engagement partner and the component auditor firms.

### **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 undertaking a project to develop ethical provisions and associated guidance for PAs (both in public practice and in business) providing tax planning and related services.



## **Tax planning and related services**

### **Key Public interest outcomes**

The PIOB welcomes and supports the public interest outcomes identified by 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 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 Code can 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**

Regulatory, professional tax practice and cultural diversity across the globe could make achieving the public interest outcome above very challenging, in particular reaching broad agreement in terms of terminology, identification of threats and ultimately achieving consistent ethical behavior of PAs providing tax planning services. IESBA should remain cautious and aware of these challenges to ensure that guidance sets high expectations on the behavior of PAs, as demanded by stakeholders.

Furthermore, the global diversity and multiple players involved in tax related services adds complexity to this project. The PIOB expects that the IESBA will focus on meeting the timeline developed for the project that reflects the milestones it intends to achieve and the urgency given to the topic.

### **Broad external engagement with relevant stakeholders**

The IESBA should ensure that sufficient outreach throughout all phases of development of the project is carried out with a broad range of stakeholders, beyond the accounting profession, such as investors, national standard setters, OECD, tax authorities, and lawyers/other professionals providing tax services to

#### **Tax planning and related services**

ensure that existing initiatives and experience are leveraged and their views are adequately taken into account.

### **OTHER PUBLIC INTEREST ISSUES (NO PROJECT ONGOING)**

#### **External 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 as in ISA 220 (revised)) and in the proposed definition of the Code (which is expected to be aligned with ISQM1). As a result, these individuals are not subject to independence requirements of the Code.

Given the growing involvement of experts in areas such as estimates and technology, it is in the public interest to assess whether the nature of their work and contribution to the audit opinion requires further independence requirements, similar to other individuals that are part of the engagement team.

As this matter is out of the scope of the current IESBA project on Engagement Team definition and Group audits (see further comments above), the PIOB recommends IESBA and IAASB to consider this issue in the Code and through a revision of ISA 620, *External experts* when next considering the Boards' strategies and work plans.

#### **Audit Firms Business Model**

##### **Audit Firms' Business Model may be a barrier to auditor independence and Audit Quality**

The audit firm business model can be seen as a barrier to independence, to the effective implementation of Professional Skepticism, and to audit quality.

The approach in the NAS and Fees projects introduces safeguards to address threats to independence, including express prohibitions of certain services, an explicit role of those charged with governance and transparency provisions for fees and fee dependency.



#### **Audit Firms Business Model**

Recognizing that the business model is a complex issue and that ethical issues are just one aspect of it, ongoing coordination with the IAASB and other stakeholders is encouraged to continue to identify ways to address the topic from a holistic point of view.

#### **Assurance of non-financial information**

##### **Take leadership role in developing ethical guidance for challenges that arise in assurance of non-financial reporting**

Reporting on non-financial information (NFI), including on sustainability and ESG reporting, is a global demand and assurance on this information will be critical to give confidence to its users about whether the reported information is free from material misstatement.

Along with diverse initiatives in the sustainability and ESG reporting space (including in relation to climate change impacts), the IESBA, together with IAASB, should take a leadership role to identify key ethical and independence challenges that arise from these services and provide guidance to professional accountants on how to navigate them. The PIOB recommends the inclusion of the ESG topic in the IESBA 2024-2028 Strategy and Work Plan (SWP) consultation and notes that ESG is listed as a potential project in the survey which the IESBA will be conducting as input to its upcoming SWP consultation.