IESBA Strategy Survey 2022

Introductory and Other Comments on Survey

Respondent	Comments
	Introductory
CAANZ	We commend the IESBA for consulting on the forward strategy and for recognising the complexities which are emerging in the profession such as, responding to developments relating to the reporting and assurance of sustainability information. We encourage the IESBA and the IAASB to call on their preeminent reputation in standard setting in order to play an integral role in charting the direction for the future of assurance in sustainability reporting.
IOSCO	We welcome the Board's approach to the Survey to seek the views from stakeholders on key trends, developments, or issues the Board should consider as it begins the process of developing its next Strategy and Work Plan (SWP) for the period 2024 - 2027. We observe that the Board was able to complete, or make progress on, a number of important projects in spite of the challenges presented by the COVID-19 pandemic. While the recently completed projects such as Non-Assurance Services Provisions, Fee-related Provisions, and Revisions to the Definition of Listed Entity and Public Interest Entity marked a positive step towards enhancing the "Code of Ethics for Professional Accountants" (the Code[1]), we encourage the Board to continue to pursue projects that will strengthen the Code, as well as continue to engage with stakeholders in order to identify areas of the Code needing attention. As it pertains to the current active work plan[2] of the Board, we support the continuation of these projects as planned as they represent opportunities to raise the bar for ethical conduct and practice for all professional accountants. We do, however, encourage the Board as it moves forward to ensure the ability to be agile in resource allocations and to be able to properly respond to emerging public interest issues (e.g., responding to the developments relating to reporting and assurance of sustainability information) as they arise. As future work plans are developed by the Board, we also encourage the Board to consider in its standard-setting toolkit an expedited process when the nature of the project (e.g., those with narrower scopes) can be completed through proper due process in a more expedited timeline to achieve the public interest objective.

[1] The references to requirements and application material of the Code herein are from the "2021 Handbook of the International Code of Ethics for Professional Accountants" dated October 21, 2021.

[2] https://www.ethicsboard.org/consultations-projects/work-plan

NASBA	In furtherance of that objective, NASBA supports the four broad strategic focus areas that should set direction and priorities for IESBA's strategy and workplan. In addition, NASBA offers the following comments specifically related to sustainability reporting referenced in the Survey.
	General Remarks
BDO	Overall, BDO is supportive of the proposed strategy and work plan and have presented. We also believe the IESBA should allow for some flexibility in the Work Plan for unforeseen issues that, if addressed on a timely basis, would benefit stakeholders more than some of the other planned projects. We support the overall vision and objectives of the proposed strategy and work program and appreciate the opportunity to provide input into the IESBA.
IFIAR	The IESBA Code of Ethics (the Code) is used by some, but not all, IFIAR members. Moreover, a number of audit firms have voluntarily committed to comply with the Code. As a result, IFIAR has an interest in enhancing the quality, clarity, and enforceability of the Code, even though existing ethical rules or provisions in force at the national level of our members may supersede those of the Code. As audit regulators, we believe that the Code should be clear and enforceable and allow for audits to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate and consistent auditor behaviour: this means that the IESBA should articulate clear ethical principles and supporting ethical provisions, along with clearly linked requirements, to promote better ethical behaviour and outcomes. We continue to support the coordination efforts among standard-setting organizations relevant to auditing. Of particular importance is the IESBA's objective to align the Code with the international standards of the International Auditing and Assurance Standards Board to promote consistency and interoperability. Regarding the proposed projects and initiatives that may be included in the consultation paper the IESBA has stated it will develop on the IESBA's next Strategy and Work Plan for the period 2024 – 2027 (SWP), we would like to reiterate the importance of focusing on the expected outcomes associated with proposed projects and initiatives.
	Strategic Focus Areas
IFIAR	As an international organization of independent audit oversight regulators, IFIAR would note that the potential strategic focus area, 'Strengthening independence standards for audit engagements,' is of key importance to IFIAR. IFIAR also has particular interest in following the IESBA's pursuit of initiatives in relation to assurance engagements on sustainability information due to the growing importance of this topic for auditors in various jurisdictions. IFIAR would also reiterate that concerns remain with respect to whether the "threats" and "safeguards" approach set out in the Code provides sufficient guidance for auditors to apply it properly. As part of the 'Strengthening independence standards for audit engagements' strategic focus area, we suggest that IESBA consider

	assessing whether the "threats" and "safeguards" approach could be enhanced with: (i) additional focus on prohibitions, where necessary; and (ii) more guidance on how requirements on the provision of non-audit services are meant to be applied. IFIAR notes that, in its annual Inspection Findings Survey Report, the topic 'Independence and Ethical Requirements,' as part of an Audit Firm's system of Quality Control, is a topic where its members frequently observe findings. IFIAR suggests that IESBA consider whether simplification (allowing for fewer exemptions) and clarification (providing more guidance on expected outcomes) of the provisions of non-audit services in the Code could help to improve audit quality. With respect to auditor independence, IFIAR suggest that the IESBA also consider whether the following topics warrant inclusion in the SWP: a. Improved guidance on the identification of key audit partners (other than the signing partner); and b. Improved guidance on 'independence in appearance'.
IOSCO	We support the Potential Strategic Focus Areas identified in the Survey: 1) *Strengthening independence standards for audit engagements, 2) Responding to developments relating to reporting and assurance on sustainability information, along with the sustainability-related topic, 3) Raising the bar of ethical behavior for Professional Accountants in Business, and 4) Promoting timely adoption and effective implementation of the Code.* Our comments related to each area are: *Strengthening independence standards for audit engagements* We support strengthening the International Independence Standards for audit engagements. We believe this should be a top ongoing priority of the Board. The ongoing benchmarking project could identify potential gaps in the Code for the Board to consider. Materiality: We would like to emphasize the importance of both prioritizing and providing professional accountants with guidance on how to evaluate materiality. For example, one area that the Board should consider to strengthen independence standards is materiality. In prior comment letters[3], we identified various shortcomings in the Code that should be addressed. Specifically, the Board should consider whether the following arrangements should not be permitted by the Code irrespective of materiality and significance: (a) A firm, a member of the audit team or a member of that individual's immediate family may make or guarantee a loan to an audit client, provided the loan or guarantee is immaterial to the firm or individual and the client (paragraph R511.4); and (b) A firm, a network firm or an audit team member shall not have a close business relationship with an audit client or its management unless any financial interest is immaterial and the business relationship is insignificant

[3] https://www.iosco.org/library/comment_letters/pdf/IESBA-22.pdf and IESBA's Consultation Paper: Proposed Strategy and Work Plan, 2014-2018 (iosco.org).

	to the client or its management and the firm, the network firm or the audit team member, as applicable. [Business Relationship section 520 (R520.4) / reworded in 2018 Code but generally same meaning adding "network firm" and swapped "immediate family member" for "close" as shown above]. *Responding to developments relating to reporting and assurance on sustainability information* Given the rapid evolution in the area of sustainability reporting, it would be useful for the Board to assess its role in this area and determine how ethics and independence considerations related to sustainability could underpin the work efforts in this area including: • collaboration with the International Sustainability Standards Board (ISSB) especially to emphasize ethics and independence considerations from the start of the ISSB's standard setting activities; • collaboration with the International Auditing and Assurance Standards Board (IAASB) to provide for a holistic standard-setting approach; • gathering an understanding of the various roles and responsibilities of the wide range of professional firms outside of the accountancy profession that may provide assurance services with respect to sustainability in order to facilitate considerations related to the Board's exploration of a potentially expanded remit of the Code[4]; • considering how the Code may cascade through the ecosystem (e.g., adopted by professionals other than accountants) before concluding on any potential expanded remit to additional professionals; and • potential insufficient numbers of properly trained professionals with diverse backgrounds to perform sustainability efforts. *Potential future sustainability-related project 2024-2027* We have included our comments related to the potential future sustainability-related project 2024-2027 in this potential sustainability strategic focus area. We encourage the IESBA to be proactive in considering enhancements to be responsive to the global momentum in this space, beginning with climate change disclosures as some major jurisdictions are already proposing approaches that would consider assurance of climate-related disclosures. We also support *Raising the bar of ethical behavior for Professional Accountants in Business* given the anticipated expanded roles for professional accountants in business related to sustainability reporting. However, the Board should ensure that resources assigned to this work does not detract from work related to strengthening independence standards for audit engagements. *Promoting timely adoption and effective implementation of the Code*

[4] From the Survey page 9 of 22: …."Whilst the Code governs public accountants in public practice (PAPPs) ethical conduct or independence on assurance engagements, it appears that there are currently no comprehensive or globally accepted standards that govern the ethical conduct or independence of these other assurance providers, or standards as comprehensive as those in the IESBA Code. Accordingly, the IESBA recognizes that there is an open question as to whether the public interest will be better served if the scope of the Code – as a body of ethics (including independence) standards that is already globally recognized and trusted – were to be enlarged to cover assurance service providers that are not PAPPs."….

	Post-implementation reviews during 2024-2027 appear appropriate for the Code revisions relating to non-assurance services, fees, and definitions of listed entity and public-interest entity. We encourage the Board to intensify its post-implementation review efforts including the topics discussed in this letter since those could enhance the effectiveness of the Code. In addition, as the Board considers the effectiveness of the implementation of the Code, we believe it would be appropriate for IESBA to reflect on 1) the nature of substantive safeguards in the Code as noted in our non-assurances services letter, and repeated below, and 2) assuming management responsibilities, as follows: Substantive Safeguards: While we appreciate the Board's initiative to address the independence issues arising from the provision of non-assurance services to assurance clients, we nevertheless strongly believe that the more commonly-used safeguards in the proposal may be inadequate. More specifically, we believe that the following are insufficient safeguards in many circumstances (as specified in subsections 601 through 610; e.g., section 601.5 A1 of the Code): • Using professionals who are not audit team members to perform the service and, • Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed. If the provision of a service by the audit firm or its network creates a threat to the firm's independence because it either results in the firm acting as management or creates a self-review threat, we question how having another professional within that firm or network firm can be used as an effective safeguard. Because the "firm" performed the service for its audit client, the professional staff member may be incentivized to make judgments that protect the economics and other interests of the firm rather than the public interest and needs of investors. We believe the following actions are examples that would be stronger safeguards than what is currently in subsections 601 – 610 (see details above): Examples of actions that the firm might take include: • Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary. • Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service. We believe the above safeguards are much more effective and we suggest the Board consider using these in certain other areas within the Code where reducing the threat to independence is feasible. Finally, and consistent with our commentary[5] made during the due process for the non-assurance services project, the Board should consider defining more stringent provisions (including prohibitions for public interest entities) to further strengthen the independence of auditors in fulfilling their role. We

[5] https://www.iosco.org/library/comment_letters/pdf/IESBA-24.pdf

	continue to observe that many jurisdictions have current rules that go beyond the provisions in the Code today. Assuming Management Responsibilities: We believe the Board should strengthen sections R600.7 through R600.8 of the Code, *Prohibition on Assuming Management Responsibilities,* to enhance the effectiveness of management taking responsibility for a service. Section 600.7.A4 states: "*Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility*." Further, paragraph R600.8 requires that management: "*Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services … However, the individual is not required to possess the expertise to perform or re-perform the services*." In that regard, we observe that if the individual and management lack the expertise to truly understand the service, we question how then could they have the competence and capability to "evaluate[s] the adequacy of the results of the service performed…"? We believe that without management or its designated individual having the competence or expertise to re-perform, or at least truly understand, the service, there may be little to no substance to "management taking responsibility" for the service. If in substance, management is not taking responsibility, this could indicate that the firm might be performing a management function rather than simply providing advice or a recommendation. We are concerned with the many subtleties that continue to occur in practice when management is presumed to "assume responsibility" without evidence of its competence and capability to do so. We recommend that the Board consider a future project to enhance these requirements in the Code, such as to require an assessment of management's competence and capability to determine whether sufficient expertise, or knowledge and experience permit management to substantively take responsibility.
	Possible Future Standards-Related Projects or Initiative
IOSCO	We appreciate the Board's thoughtfulness in developing the ten potential future projects or initiatives in the 2024-2027 strategy period included on pages 14-22 of the Survey. We believe the IESBA should prioritize the following, subject to staffing resources: • Independence of external experts • Audit firm – audit client relationships (including "network firm" definition reconsideration) • Business relationships • Non-authoritative material (see sustainability potential strategic focus section above for these comments) While we acknowledge the importance of a possible future standard-related project on Breaches of the Code, we believe that the Board should first focus its efforts on

	ensuring the projects that are designed to achieve objectives to strengthen the Code to promote the deterrence of breaches to the extent possible. We also believe consideration should be given to whether less time intensive Code updates like modifying the definition of "network firm" could be considered as a narrow scope or targeted amendment to the Code versus a more involved project. This could permit expedited responses in light of public interest responsiveness. Finally, timely and accurate translation of the Code from English to another language is very important in facilitating consistent understanding, adoption and implementation of the Code in practice. Some of our members that have adopted the Code are using a Board-approved translated version in which there are instances where the translation does not reflect the original meaning or intent of the Code. Relatedly, we encourage the Board to continue to consider possible unintended consequences of using words that may be difficult to translate into other languages. Further, we encourage the Board to consider the compliance of the various translating bodies particularly with respect to providing representatives of independent oversight bodies, regulators and other public interest organizations with an opportunity to review the proposed translation before it is finalized. The Board could also consider establishing a process, perhaps as part of a post-implementation review, to address translation issues that were identified subsequent to finalizing a translated version so those issues could be modified and resolved.