PIOB
Enhancing Public Interest

PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of June 2022.

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

Technology-related Revisions to the Code and Non-Authoritative Material

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, and clarifying how the fundamental principles in the Code should be applied in such a complex and new environment. It is important that the Code signals clearly the level of 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

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The PIOB appreciates the Task Force's proposal in the ED to clarify that where there is a sale or licensing of technology by audit firms or network firms to audit clients, the independence provisions in the NAS section (600) in the Code apply (including the prohibition to provide those services when a self-review threat might be created).

The PIOB also notes the proposed 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 the analysis of stakeholders' input resulting from the consultation.

Effective co-ordination of effort is important for timely progress

Co-ordination between the TWG and the TTF is 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") showed an imbalance in the input received, where the majority of respondents belonged to the audit profession and there was a low level of participation from investors, regulators and other stakeholders. The PIOB notes that targeted outreach has since been conducted by the TWG with a number of groups, such as Those Charged With Governance, Public Sector organizations, PAIBs and Technology companies.

It is essential to obtain views from a broader and more complete group of stakeholders, in accordance with the PIF.

The PIOB also notes the establishment of a Technology Experts Group (TEG), which includes NSS, Consultants, PAIBs, PAPPs, TCWG, and Academics, and which will act as a sounding board to the TWG. The PIOB acknowledges that the selection of the group mainly took into account the expertise in technology and notes that the composition could possibly benefit from views of other stakeholders, such as regulators or users/investors or from different economies with relevant insights.

Working with other projects and the IAASB

Technology-related Revisions to the Code and Non-Authoritative Material
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 the 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 the IESBA to take the opportunity not only to improve the definitions in the Code, but also 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 public interest. Implementation guidance may be necessary to ensure consistent application of the provisions. The PIOB welcomes the consultation on the approved ED and looks forward to the analysis of feedback from stakeholders. Finalizing the Code changes will benefit from a special focus on clarity and consistent global applicability and enforceability. 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 (revised) 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 Team and Group audits

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 in the ED 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. A key focus area in finalizing the Code changes will be to ensure certainty and consistency in the independence requirements applying to component auditors.

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.

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:

- 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

Tax planning and related services
Achieving the public interest outcome will be 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 should remain cautious and aware of these challenges to ensure that guidance sets high expectations on the behavior of PAs, as demanded by stakeholders, and is capable of producing substantive change. The PIOB expects that the IESBA will focus on finding the right balance between achieving high-quality standards and 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, civil society organizations, tax authorities, and lawyers/other professionals providing tax services to ensure that existing initiatives and experience are leveraged and their views are adequately taken into account. The PIOB welcomed the series of global roundtables organized to gather input and feedback from a broad range of stakeholders, and encourages the TPTF to continue with targeted outreach with those groups which participated.

OTHER PUBLIC INTEREST ISSUES (NO PROJECT PROPOSAL APPROVED YET)

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 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 opinion requires further

External Experts
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 the 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.

Preparation of Information and Assurance on Sustainability Reporting
Take a leadership role in developing ethical guidance for challenges that arise in sustainability reporting and assurance Reporting on non-financial information, ESG, or sustainability reporting is a global demand, and 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, is taking a leadership role to identify key ethical and independence challenges that arise from these services and provide relevant guidance on how to navigate them. A global and timely response is needed in the public interest, and the PIOB welcomes the IESBA's recent public statements about this. The FSB progress report issued in July refers to IESBA's responsibility in developing ethics standards for sustainability reporting and assurance. The PIOB has recommended the inclusion of sustainability reporting in the IESBA 2024-2027 Strategy and Work Plan (SWP) consultation and notes that sustainability reporting is included in the survey which the IESBA is conducting as input to its upcoming SWP consultation. The PIOB supports the timely establishment of the Sustainability Working Group, with the mandate to conduct fact finding activities, to provide input for staff guidance, and to develop ethics and independence standards that will complete the sustainability reporting infrastructure. The PIOB welcomes the discussion undertaken by the IESBA on the role of the PAIBs (involved in the preparation and disclosure of sustainability reporting), as well as of the PAPPs (involved in providing assurance services on sustainability reporting). The initiative to develop guidance on greenwashing is an important first step. Although the Code of Ethics applies only to professional accountants, there is merit for the IESBA to consider whether the remit of the Code might also include other professionals that provide assurance on sustainability reporting. A common baseline, both for professional accountants and for those in other professions, would be in the

Preparation of Information and Assurance on Sustainability Reporting
public interest. The PIOB notes the inclusion of this topic in the stakeholders' questionnaire recently issued by the IESBA. This will help gathering an understanding of both the extent to which other professions are involved in providing assurance in the sustainability space (e.g. engineers, IT consultancies, actuaries, etc.) and the ethical standards, if any, they bring to that work (especially in relation to independence).