

### Draft Minutes of the 83<sup>rd</sup> Meeting of the INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS

Held on June 12-16, 2023 in New York, USA

#### Voting Members

Present: Gabriela Figueiredo Dias (Chair)  
Laurie Endsley (Vice Chair)  
Saadiya Adam  
Mark Babington  
Vania Borgerth  
Sanjiv Chaudhary  
Richard Huesken  
Sung-Nam Kim  
Rania Uwaydah Mardini  
Christelle Martin  
Andrew Mintzer (Days 1, 3-5)  
Paul Muthaura  
Felicien Muvunyi  
Luigi Nisoli  
Jens Poll (Days 1-4)  
Channa Wijesinghe  
Yaoshu Wu

#### Technical Advisors

Keith Billing (Mr. Babington)  
David Clark (Mr. Huesken)  
Jens Engelhardt (Prof. Poll)  
Ellen Gorla (Mr. Mintzer)  
Marta Kramerius (Mr. Nisoli)  
Charles Luo (Mr. Muthaura) (Days 1 & 4)  
Ki-Tae Park (Mr. Kim)  
Carmen Penderis (Ms. Adam)  
Andrew Pinkney (Ms. Endsley)  
Kemisha Soni (Mr. Chaudhary) (Days 1-4)  
Bruno Tesnière (Ms. Martin)  
Chris Twagirimana (Mr. Muvunyi) (Day 1)  
Kristen Wydell (Mr. Wijesinghe)  
Masahiro Yamada (Ms. Borgerth)  
Xiaoye Yuan (Ms. Wu)

#### Non-Voting Observers

Present: Gaylen Hansen, IESBA Consultative Advisory Group (CAG) Chair (Days 1, 4 and 5), and  
Jumpei Kato, Japanese Financial Services Agency (FSA)

#### Public Interest Oversight Board (PIOB) Observer

Present: Begoña Giner

#### IESBA and IFAC Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Program and Senior Director), Linda Biek (Director), Geoffrey Kwan (Director), Laura Leal, Kam Leung, Jon Reid, Szilvia Sramko, Carla Vijian, Jeanne Viljoen, Astu Tilahun, Diana Vasquez  
David Johnson (IFAC Communications)

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Ms. Dias welcomed all participants and public observers to the third Board meeting of 2023. During her opening remarks, she briefed the Board on various matters, including the following:

- New Member and Technical Advisor appointments:
  - Mr. Héctor Lehuedé (Chile), Board member (3-year term)
  - Mr. Charles Luo (Kenya), Technical Advisor to Mr. Muthaura
  - Ms. Carmen Penderis (Namibia), Technical Advisor to Ms. Adam
- The activities of the Planning Committee during the quarter, which included status updates on the various projects; planning for the June 2023 Board meeting; and consideration of an outline of an IESBA response to the Institute of Internal Auditor's (IIA) Exposure Draft, "Proposed Global Internal Auditor Standards 2023."
- Outreach activities since the March 2023 meeting.

### APPROVAL OF MINUTES

The IESBA approved the minutes of the March 2023 public session as amended.

## 2. Sustainability

### I. AccountAbility Presentation

Ms. Dias welcomed Ms. Peppi-Emilia Airike, Head of Standards and Research, Mr. Daniel Metzger, Associate Director, Head of Middle-East & Asia, and Mr. Thomas Mytton, Head of Europe, AccountAbility, to provide an overview of AccountAbility's Environmental, Social and Governance (ESG) advisory and standards functions. The presentation included an outline of AccountAbility's history, structure and advisory services as well as an overview of its AA1000 series of standards, including its AA1000 Assurance Standard (AS) v3.

Among other matters, IESBA participants raised a number of comments and queries, including the following:

- Whether AccountAbility's standards are part of any national schemes for sustainability assurance or whether they are complimentary to such schemes. In response, Mr. Metzger noted that AccountAbility monitors and collaborates with national schemes but is independent and its standards are complimentary to those schemes. Ms. Airike added that with the trend towards mandatory reporting, there is a greater demand for assurance, leading to an increase in interest in assurance providers becoming licensees of the standards. With such an increase in interest, AccountAbility is taking measures to ensure licensees comply with AA standards and to make training mandatory.
- How does AccountAbility manage conflicts of interest when setting standards and providing consulting and training services, and who is responsible for monitoring the assurance providers who use the AA standards? In response, Mr. Metzger explained that AccountAbility does not provide assurance services to clients to which it provides advisory services, and that its standards and advisory functions are independent business units. He added that its training function is largely provided by a third party accredited by AccountAbility. Ms. Airike and Mr. Metzger also noted that

every report is registered on AccountAbility's e-licensing platform and tagged to the individual licensed assurance practitioner and that random checks are being undertaken. They further noted that AccountAbility is looking at new technology to handle a greater volume of reports and to ensure sufficient sample sizes for its monitoring activity.

- With regards to compliance with the Code of Practice set out in AA1000 AS v3, Ms. Airike and Mr. Metzger pointed out that they receive many questions on how to practically implement the Code as licensees have specific sets of circumstances that they need to address.
- Whether the Code which requires independence at the firm level and is premised on a quality management framework could be operational within AccountAbility's framework. In response, Mr. Metzger noted that AccountAbility generally guides an entity away from providing assurance services to a client if other services are provided by other business units of that entity. He added that some entities may have the necessary measures to maintain independence.
- Whether AccountAbility's assurance standards would work in the context of the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD) and whether it would be accepted within the EU as a basis for mandatory assurance. In response, Messrs. Metzger and Wytton expressed the view that AccountAbility will support the requirements of CSRD. They noted that it will continue to proactively engage with the relevant stakeholders, including the regulatory community, to promote its standards and to ensure that there is alignment. In this regard, an IESBA participant encouraged AccountAbility to consider whether its standards might be complementary to the International Auditing and Assurance Standards Board (IAASB) and IESBA standards.
- In response to a query about the background of AccountAbility's licensed assurance providers, Ms. Airike explained that due to an increased demand for assurance providers, AccountAbility is updating its processes to expand its capacity to gather more information on the background of the organizations as well as their intentions to become assurance providers.

Ms. Airike also indicated that AccountAbility intends to respond to the IESBA's exposure draft on its sustainability-related standards.

Ms. Dias thanked Ms. Airike and Messrs. Metzger and Wytton for the informative and insightful presentation.

## **II. Common Issues**

### **UPDATE ON OUTREACH ACTIVITIES**

Ms. Sramko provided a breakdown of the respondents who attended the IESBA's global sustainability roundtables in Paris, Sydney, Singapore and New York between late March and early April 2023, noting broad stakeholder group representation (142 participants from 84 organizations, including non-professional accountants (non-PAs)). Ms. Sramko also provided an update IESBA-IAASB coordination, which included two sustainability liaison meetings attended by Mr. Huesken and Ms. Isabelle Tracq-Sengeissen, IAASB Coordination liaison member.

IESBA representatives also provided a brief update on other outreach activities undertaken during Q2 2023, including the Financial Stability Board (FSB) roundtable, the International Organisation of Securities Commissions (IOSCO) Sustainable Finance Task Force meeting, the International Forum of Independent Audit Regulators (IFIAR) plenary meeting and IFIAR Standards Coordination Working Group meeting, the International Organization for Standardization's (ISO) Committee on Conformity Assessment (CASCO)

meeting, the 7<sup>th</sup> African Congress of Accountants (ACA), and meetings with representatives of the International Sustainability Standards Board (ISSB) and United Kingdom Accreditation Services (UKAS).

Among other matters, IESBA participants raised the following comments:

- In response to a suggestion about measuring the IESBA's stakeholder engagement activities against AccountAbility's AA1000 Stakeholder Engagement Standard, Mr. Siong encouraged the IESBA to reflect on its stakeholder engagement strategy to ensure that its work has the most impact at a global level.
- As non-PAs from different professions, such as engineers, in smaller markets might face potential challenges when implementing independence standards at the firm level, it was queried how the IESBA might approach this issue. In response, Ms. Adam noted that participants at the ACA did not raise any concerns about the IESBA developing profession-agnostic standards that are equivalent to those for audit engagements. She suggested the issue could be further considered by the Task Force.

#### PRESENTATION OF ETHICS AND INDEPENDENCE STANDARDS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

Mr. Babington, the Sustainability Work Stream 1 (WS1) Chair, introduced the topic by highlighting the overarching objectives of developing globally adoptable standards that meet the key characteristics set out in the Public Interest Framework (PIF) and are profession-agnostic, with the same high bar as those for audit engagements to avoid regulatory arbitrage.

Mr. Babington then noted the broad support received from the Consultative Advisory Group (CAG) in March 2023 and from participants at the sustainability roundtables for the Board to develop profession-agnostic standards for sustainability assurance and for them to be housed in a new Part 5 within the Code (Option B in the appendix of the [Agenda Item 2 presentation](#)).

In light of such support as well as the Board's discussions in March 2023, Mr. Babington noted that the Task Force recommended the development of a new Part 5 (Option B) as the most balanced approach that would best serve the public interest. He further noted the Task Force's view that fully integrated standards within Part 4A (Option A) would be too complex for non-PAs, while a separate Code (Option C) could risk timely adoption and implementation by jurisdictions as some may require changes to law or regulation.

Of the three options presented to the Board on how Part 5 could be developed (Options B(i) to B(iii) in the appendix of the [Agenda Item 2 presentation](#)), Mr. Babington explained that the Task Force's proposal is for the new Part 5 to be applicable to all sustainability assurance practitioners, irrespective of whether they are PAs, non-PAs or the entity's external auditor (Option B(iii)). He explained that this approach more clearly demonstrates the same rigor for both PAs and non-PAs, ensures "a single version of the truth" between the standards for audits and those for sustainability assurance engagements, and is a clearer option regarding which standards to use if a practitioner provides different services to a client. He further explained that if the new sustainability assurance-related standards were included in the existing Parts of the Code as well as in the new Part 5, such an approach could undermine global adoption of the Code as some jurisdictions may choose to adopt only the existing Parts of the Code but not Part 5.

The IESBA expressed support for the Task Force's proposal of developing a new Part 5 applicable to all sustainability assurance practitioners (Option 3(iii)). Among other matters, IESBA participants raised the following comments:

- Given that the proposed new Part 5 will be applicable to non-PAs, the IESBA may need to consider renaming the Code. In response, Mr. Babington noted that the Task Force was mindful that any

changes may impact global adoption. He suggested that the Task Force will provide some options for the IESBA's consideration. Ms. Dias expressed the view that this is a matter for the IESBA's strategic consideration so as to ensure that any new name captures everything without being too long.

- In addition to the input from the IESBA's Sustainability Reference Group (SRG), there needs to be other outreach to ensure that the IESBA will receive feedback on its exposure draft from a broad range of stakeholders. In this regard, it was suggested that one possible outreach forum is the upcoming United Nations Conference of the Parties (COP) 28 event later in the year. There was also a suggestion to coordinate with the ISSB in identifying additional stakeholders in Africa, given its recent outreach in that region.
- There may be challenges in ensuring PAs and non-PAs apply the new Part 5 in the same way. In response, Mr. Babington pointed out that one solution is for the IESBA to consider commissioning non-authoritative material (NAM) to assist those applying the Code for the first time. He also clarified that Part 5 will include all relevant provisions from other Parts of the Code for all PAs and non-PAs, and that it will be equivalent to the ethics and independence standards for audit engagements. There was also a suggestion that the timing and scope of any NAM should be highlighted in the exposure draft.
- There is a significant advantage for non-PAs to having all the relevant standards in one place for understandability. At the same time, this would not be a disadvantage for PAs as they are already familiar with the Code and it is not expected that there would be significant changes to the requirements. It was also noted that regulators may potentially not adopt the new standards if they were placed outside the Code.
- Whilst the Task Force's proposed approach is an efficient way to address the current issues, consideration may need to be given to whether requirements for audit in the extant Code should remain the same in the long term for situations where a firm is providing both audit and sustainability assurance engagements. In response, Mr. Babington reiterated that the Task Force drew on the PIF in order to develop an approach that best serves the public interest. However, he agreed that it is outside the scope of this project to consider revisions to the existing requirements of the Code in response to a maturing sustainability assurance market. He further suggested that at the finalization of the project, the Task Force could provide a list of issues for the IESBA's consideration in the longer term that may result in revisions to the existing requirements.
- The inclusion of the sustainability assurance-related standards within the Code might create challenges in how to effectively promote them to non-PAs who are currently not required to comply with the Code. In response, Mr. Babington stressed that ongoing outreach with global and national regulators would be needed to raise awareness about the issue and obtain their input regarding how best to address it. He noted that the use of roundtables to seek participants' feedback on the discussion topics before drafting began should have helped to develop goodwill and buy-in from stakeholders.

#### *PIOB Observer's Remarks*

Ms. Giner commended the IESBA on the amount of work done. She noted that the PIOB supports the proposal for developing a new Part 5. She further noted that the PIOB understands from a public interest perspective that it is important to first address non-PAs with respect to sustainability assurance. However,

she encouraged the IESBA not to ignore the public interest importance of high ethics standards for non-PAs involved in sustainability reporting as such standards will help to address issues such as greenwashing.

In response, Ms. Martin noted that while the ethics standards for sustainability reporting are focused on PAs, these standards will be available for use by non-PAs. She added that consideration could be given to pursuing other routes to promote and spread the standards, such as through corporate governance mechanisms.

#### IESBA SUSTAINABILITY REFERENCE GROUP (SRG)

Ms. Leal provided an update regarding the newly established SRG, including the group's composition and balance of geography and gender. She noted that two seats are yet to be filled by candidates from the Africa and Latin America regions.

Mr. Wijesinghe, SRG Chair, provided an overview of the inaugural SRG meeting held on June 6, 2023 which included discussions on the Sustainability project's scope and timeline, the option of a new Part 5 in terms of the presentation of the ethics and independence standards for all sustainability assurance practitioners, and some defined terms.

Among other matters, IESBA participants raised the following comments:

- Given the importance of the SRG's role, a robust selection process is necessary to achieve a diverse composition that will meet the project's purposes. It was also queried whether the SRG members should only be selected from participants at the IESBA sustainability roundtables or whether the IESBA should also target specific industries.

In response, Mr. Babington explained that a key consideration is for the SRG to be able to commence work and provide input immediately, as time is of the essence in the project. He noted that the Task Force will continue to seek input from other stakeholders. Ms. Dias attested to the robustness of the Task Force's deliberations in reviewing the applications received. She stressed that the effort taken to involve so many non-PAs in the roundtables had created an excellent opportunity to further involve some of them as part of the SRG. Ms. Leal and Mr. Wijesinghe added that the Task Force focused on those applicants with expertise and practical experience to provide input to the development of the draft standards, especially sustainability-related examples. Mr. Siong observed that the extent of interest from individuals to join the SRG highlighted the importance of the project and the need to make sure that the appropriate expertise is included in the SRG.

- In response to a query raised about representation from the African region, Mr. Siong indicated that the Pan African Federation of Accountants (PAFA) had provided a list of suggested candidates for the Task Force's consideration.

#### *PIOB Observer's Remarks*

Ms. Giner requested further details about the structure of the SRG, the expressions of interest received, and the selection criteria. In response, Ms. Leal and Mr. Siong explained that the Task Force's focus was on those outside the accountancy profession with sustainability expertise, taking into account geographic and gender diversity in order to achieve a carefully calibrated balance to inform the IESBA's work. Ms. Sramko added that the SRG's Terms of Reference included the selection criteria and ~~was~~ were provided to applicants before they expressed interest. Staff presented additional details about the candidates who applied to join the SRG during the Executive Session.



### 3. Sustainability Work Stream 1 (WS1)

Mr. Babington, WS1 Chair, and Mr. Billing and Ms. Sramko briefed the Board on the feedback received from the global sustainability roundtables regarding the proposed overarching principles for the independence provisions for sustainability assurance engagements, as well as WS1's proposed responses to the key comments and suggestions received. They also asked for IESBA members' input on the preliminary draft of independence standards for sustainability assurance engagements in relation to key independence issues.

IESBA members generally supported the direction of WS1's proposals and provided comments on the following key matters.

#### SCOPE OF INDEPENDENCE STANDARDS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

IESBA members reaffirmed their support for prioritizing developing independence standards for sustainability assurance engagements where there is the same level of public interest as for audits. They agreed that the independence provisions applicable to such engagements need to be equivalent to those applicable to audit engagements.

IESBA members discussed the proposed criteria for the scope of independence standards in Part 5 of the Code and raised, among others, the following comments:

- Some IESBA members had concerns regarding using the term "engagements of heightened public interest" for engagements that would fall within the scope of Part 5. They believed such a term could create confusion with the determination of whether an entity is a public interest entity (PIE). [Mr.-Ms. Giner](#) agreed. Mr. Babington explained that the term was meant to focus on the public interest aspect of the engagement and not on the entity. However, he proposed refraining from using any specific term to denote the level of public interest in sustainability assurance engagements under Part 5.
- An IESBA member asked how the criteria for engagements under Part 5 differentiate such engagements from any other sustainability assurance engagements, given that the criteria are really similar to those proposed for the definition of a sustainability assurance engagement. Mr. Babington explained that sustainability assurance engagements could be performed with respect to information developed in accordance with a special purpose framework, or the assurance report could be a private report.
- An IESBA member expressed a concern that sustainability assurance reports that are not publicly available could have the same level of public interest since they could still influence decision-making. It was therefore questioned whether it would be appropriate for the IESBA to provide different independence provisions for such engagements. Mr. Babington explained that in the case of public reports, these serve as a basis for decision-making through comparability of the information; therefore, there is a need for more stringent independence provisions. He added that the client of a private sustainability assurance report could still require the firm to use the independence provisions under Part 5 if it believes more stringent independence provisions are warranted. Mr. Siong clarified that the extant International Independence Standards also differentiate between audit and other assurance engagements, and Part 4A provides more stringent standards than Part 4B. He noted that the proposed standards for sustainability assurance engagements would follow the same approach.
- A few IESBA members asked for clarification regarding direct sustainability assurance engagements that would not fall within the scope of Part 5. Mr. Babington and Ms. Sramko clarified that *direct assurance engagement* is already a defined term in the Glossary to the Code, which would be

applicable in the context of Part 5. IESBA members felt that further guidance might be necessary, especially for non-PAs, as it is a complex definition. Ms. Giner shared IESBA members' concerns<sup>1</sup>.

- A few IESBA members and Ms. Giner asked how a firm should determine whether the sustainability information is "publicly available" as set out in the proposed criteria. Mr. Babington responded that WS1 would consider further clarification regarding this point.
- It was questioned why the proposed independence standards would not scope in "certification-type" engagements. An IESBA member believed that if the standards exclude these types of engagements, there should be guidance to assist in that determination. Mr. Babington responded that a certification could provide confirmation that a series of requirements are met, for example, an "agreed-upon procedures" engagement; however, it does not result in an assurance opinion. He explained that WS1 proposed a positive approach and suggested a definition for "sustainability assurance engagement" because there is no exhaustive list of engagements that are not assurance engagements.

#### QUALITY MANAGEMENT SYSTEM

IESBA members agreed that a high bar of ethics and independence standards should be premised on the sustainability assurance practitioner being a member of a firm that is subject to ISQM 1,<sup>1</sup> or other professional requirements, or laws or regulations regarding the firm's responsibility for its system of quality management, that are at least as demanding as ISQM 1.

IESBA members made the following comments, among others.

- Although they agreed with the proposed approach, a few IESBA members recognized the challenges non-PA sustainability assurance practitioners would face in implementing and applying ISQM 1. They suggested that the IESBA consider providing an appropriate transitional period and supporting guidance to help such practitioners in implementing the necessary systems of quality management. There were suggestions for including a question about the necessary transitional period in the Exposure Draft.
- An IESBA member asked who should determine in practice if a standard is at least as demanding as ISQM 1. Mr. Siong explained that it is not the provider, IAASB, or IESBA who makes the determination regarding the equivalence of the different standards but the relevant national standard setters (NSS) that promulgate the ethics and independence provisions applicable to sustainability assurance engagements.
- A few IESBA members asked if WS1 was aware of any other existing standards or standards to be published that meet these criteria and are considered at least as demanding as ISQM 1. Mr. Babington responded that WS1 did not know about any such standards. Ms. Dias observed that although there may not be standards or frameworks that meet these criteria now, there might be in the future, and the independence standards in Part 5 must be future-proof.
- There was a question about how the definition of "firm" would impact the provisions in the Code addressing systems of quality management. Given that the independence standards are premised on the firm of the sustainability assurance practitioner being subject to ISQM 1, it was noted that the

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<sup>1</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*



definition of “firm” and the fact that it captures both upstream and downstream entities would impact the scope of the requirement.

An IESBA member questioned whether it was proportionate to propose such a broad firm definition in the case of non-PAs whose business might operate differently than audit firms. Mr. Babington explained that the definition of “firm” in the context of sustainability assurance engagements is equivalent to the definition of the same term in the standards for audit engagements. He added that if the IESBA intends to keep this equivalence, Part 5 needs to require the implementation of systems of quality management for the same entities, irrespective of whether the practitioner is a PA or non-PA.

#### DETERMINATION OF PUBLIC INTEREST ENTITIES IN PART 5

IESBA members supported WS1’s proposals that the provisions for PIE clients in Part 5 be applicable when (i) the entity is a PIE for purposes of the audit of financial statements, or (ii) the specific jurisdiction determines that the entity is a PIE in the context of the sustainability assurance engagements.

Among other matters, IESBA members raised the following questions and comments:

- An IESBA member asked if the PIE provisions in Part 5 would also be applicable if the auditor chooses voluntary application of the PIE provisions in Part 4A for the audit engagement. A few IESBA members suggested that the proposals set out a proper communication mechanism between the auditor and the sustainability assurance practitioner regarding the determination of whether the entity is a PIE.
- In relation to the proposal that would recognize that specific jurisdictions could determine whether an entity is a PIE in the context of the sustainability assurance engagement, it was suggested that the IESBA consider providing some guidance for professional bodies and NSS to ensure global operability and consistent application of the PIE provisions in Part 5. Mr. Babington and Ms. Sramko responded that the determination of additional PIEs at a jurisdictional level is only an option, as NSS can opt not to add any other entities to the list in the IESBA definition. Furthermore, they explained that WS1 believed that at this stage, NSS in specific jurisdictions are better positioned to designate which entity is a PIE in the context of sustainability assurance engagements; therefore, it would be really challenging to provide any guidance to NSS at a global level.

Mr. Siong highlighted that the standardization of sustainability reporting and sustainability services, including sustainability assurance engagements, is at an early stage, and the market would continue to evolve. Given this context, he suggested that the IESBA monitor the market developments before providing guidance for jurisdictions as to which additional entities would be deemed to be PIEs in the context of sustainability assurance.

#### GROUP SUSTAINABILITY ASSURANCE ENGAGEMENTS

Mr. Billing presented WS1’s preliminary proposals for independence provisions applicable to group sustainability assurance engagements.

IESBA members acknowledged that in almost all cases, sustainability assurance would be provided in a group reporting context, and some of the reporting frameworks, such as the European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD) in the EU, require reporting of consolidated sustainability information. For the Code to remain relevant, IESBA members agreed that the independence standards need to address the independence considerations for

group sustainability assurance engagements, even if the IAASB does not plan to develop a specific assurance standard for group sustainability assurance engagements. Nevertheless, IESBA members generally recognized that more information was necessary on how group sustainability assurance engagements have been carried out in practice and whether the proposals would be fit for purpose. They supported including a section on group sustainability assurance engagements in the Exposure Draft and asking for stakeholders' input on the proposals.

Mr. Siong also noted that the concept of organizational boundary in the case of a sustainability assurance engagement is the same as for an audit, but the reporting boundary might go beyond the organizational boundary, e.g., to scope in value chain entities. He suggested that the Board consider the independence implications when a firm uses the work of another practitioner who is not part of the sustainability assurance team or group sustainability assurance team. Mr. Billing agreed and clarified that the key consideration when the firm uses the work of another practitioner is whether the firm can direct, supervise, and review the other practitioner's work as that would determine whether the individual is part of the engagement team. He also suggested that the Board consider providing a flexible approach to address the different scenarios and practices in an evolving market. Mr. Siong and a few Board members supported that suggestion.

Mr. Siong also noted that there might be composite engagements where a sustainability assurance practitioner undertakes limited assurance procedures on one part of the sustainability information and reasonable assurance procedures on the rest. He suggested that WS1 consider whether the proposed provisions would also apply to those types of engagements.

A Board member asked whether WS1 has considered conforming amendments to Part 4B applicable to other sustainability assurance engagements that are not in the scope of Part 5. Mr. Babington suggested that the IESBA discuss this issue when considering revisiting Part 4B in the context of other sustainability assurance engagements as part of potential subsequent phases for sustainability in the future.

Since sustainability reporting frameworks already require reporting on a consolidated basis, Ms. Giner supported that the IESBA address the independence considerations for group sustainability assurance engagements. She agreed that the IESBA needs to proceed even if sustainability assurance standards, such as draft ISSA 5000,<sup>2</sup> did not set out specific provisions for group assurance engagements. However, she emphasized the importance of close coordination with the IAASB on this matter.

#### PROPORTION OF FEES

Ms. Sramko presented WS1's approach regarding fee-related matters, including the proposed guidance addressing threats arising from the proportion of different fees received from a sustainability assurance client when the sustainability assurance practitioner is also the auditor.

Some IESBA members were concerned that the proposed guidance and the distinction between audit fees and fees for services other than audit, including fees for the sustainability assurance engagement, could have unintended consequences and impact market practices. Among other matters, they made the following comments:

- A few IESBA members had concerns that given the potential complexity of a sustainability assurance engagement, especially if it involves a number of different sustainability matters, the level of fees might be higher than the fees for the audit. They noted that the auditor might not be allowed to carry

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<sup>2</sup> Proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

out the sustainability assurance engagement in those circumstances. They argued that the proposed treatment for sustainability assurance fees did not align with the ultimate goal of promoting integrated reporting. They also noted that laws and regulations might mandate that the auditor perform such services in some jurisdictions. Ms. Sramko explained that the proposed guidance is in line with the provisions in Part 4A of the Code and did not include specific thresholds or prohibitions for the auditor. She added that WS1 proposed a principle-based approach. Based on that approach, the firm needs to consider the specific facts and circumstances to evaluate whether the threats created by the proportion of the fees are at an acceptable level, and address such threats if necessary. She noted that the examples of such facts include whether the service is mandated or not.

- Considering the IESBA's work to develop robust ethics and independence standards for sustainability assurance engagements that are equivalent to the standards for audit engagements, a few IESBA members wondered whether it would be more appropriate to treat sustainability assurance fees as audit fees. Mr. Babington acknowledged that the ultimate goal is integrated reporting, and the trends pointed towards merging these services in the future. However, he noted that audit and sustainability assurance engagements are separate engagements, with separate standards, and the Board needs to address the current situation that could impact auditors' mindset and create threats to independence.
- An IESBA member questioned whether it would be more appropriate if Part 4A and Part 5 distinguish between assurance and non-assurance fees. WS1 members and a few Board members responded that the changes arising from the Fees project have become effective recently, and the Fees project proposed a distinction between audit and non-audit fees, in line with some national laws and regulations, for example, in the EU. An IESBA member noted that such a change to the current provisions could result in less stringent requirements concerning auditors' independence, which would not be in the public interest. Mr. Babington and a few Board members suggested that the Board further consider the appropriateness of the extant approach during the post-implementation review for the revised Fees provisions.
- A Board member raised that while shareholders are involved in determining audit fees, there are no regulations on sustainability assurance fees, and management can decide such fees without any real challenge. He suggested that the IESBA consider the impact of the lack of shareholders' intervention on independence issues regarding fees in a sustainability assurance context.

Mr. Siong noted that the approach regarding the proportion of audit fees and sustainability assurance engagement is also a public interest issue as the Board's position could impact how fast the market moves to integrated reporting. Given the importance of this issue, he recognized and appreciated the calls for the Board to consider whether sustainability assurance fees should be part of audit fees, especially in light of integrated reporting as an ultimate goal. He also questioned if it was appropriate to propose the same treatment for audit and sustainability assurance with respect to partner rotation but not with respect to fees. He suggested that the IESBA ask for stakeholders' input about the proposed treatment for sustainability assurance fees and its impact on the market as part of the public consultation on the Exposure Draft. Ms. Dias and Ms. Giner supported Mr. Siong's proposal.

#### PROVISION OF NON-ASSURANCE SERVICES (NAS)

Board members supported WS1's proposals regarding the provision of NAS to sustainability assurance clients. They suggested that WS1 consult with the SRG to include further sustainability-related examples and neutral terms in the proposed Section equivalent to Section 600 in Part 4A.

IESBA members raised, among others, the following points for further consideration:

- An IESBA member suggested that Part 5 also address the provision of services to value chain entities involved in the reporting boundary but not necessarily in the organizational boundary. Mr. Billing responded that WS1 would consider these services and the potential threats related to relationships with value chain entities. Nevertheless, recognizing the limited number of experts whose work the firms could use in this field, he believed that the Board should address this issue through enhanced transparency regarding the provision of such services. Mr. Babington added that the supply chain could be quite broad for more prominent companies; therefore, the Board needs to be cautious about how Part 5 addresses the threats up and down the value chain.
- Since the overarching principles regarding the provision of NAS are already robust, a Board member proposed that WS1 focus not only on equivalence to Part 4A in the context of NAS but also consider the relevance and the impact of the specific service in the context of a sustainability assurance service. As a potential new service, a Board member suggested including designing policies and procedures, for example, anti-bribery policies, as a prohibited NAS.

Regarding the reference to double materiality in the proposal, Ms. Giner cautioned the Board against narrowing the explanation of impact materiality to the impact on the users of the information. Instead, she suggested that in line with other frameworks, such as the ESRS, the Code should approach double materiality from the point of view of impact on stakeholders in general.

Mr. Kato supported the proposed way forward regarding asking for input from stakeholders outside the accountancy profession. He emphasized that the proposed standards need to be principles-based and flexible. He also encouraged the Board to consider providing sufficient transitional provisions if warranted.

#### OTHER MATTERS

##### *Period During Which Independence is Required*

IESBA members agreed that analogous to Part 4A, Part 5 should not require firms to maintain independence during the period covered by the sustainability information. Given that sustainability information is often forward-looking in nature, they acknowledged that it could cover a longer period, and therefore requiring independence during such an extended period into the future would not be proportionate. They supported that the proposals focus on the period covered by the sustainability report.

A few IESBA members questioned whether the proposed period during which independence is required in the context of sustainability assurance engagements would be the same as for audit engagements. Mr. Babington indicated that the proposed approach for sustainability assurance engagements was intended to be the same as for audit engagements.

A few other IESBA members wondered whether the proposed standards would address the independence-related issues created by services provided before the period covered by the sustainability assurance report. Mr. Babington clarified that, similar to the approach the Code takes for audit engagements, the standards would set out guidance for addressing the threats created by prior services.

##### *Definition of Engagement Leader and Service Leader*

IESBA members noted the presentation on WS1's proposal regarding the proposed "engagement leader" and "service leader" definitions in Part 5 as parallels to the definitions of "engagement partner" and "partner" in Part 4A. In relation to the definition of "service leader," IESBA members raised the following comments:

- A few IESBA members noted that in the case of non-PA firms, their business operations might differ from how audit firms undertake their business, and it is not necessarily the responsibility of the leaders in the non-PA firms to sell services to the client. They questioned whether the proposed definition was meant to cover individuals who could bind the firm regarding selling goods and products for the client. Mr. Billing pointed out that the proposal, in line with the provisions in Part 4A, only set out a few requirements for service leaders; in those instances, other firm employees are also required to be independent. He explained that these individuals would be captured either way.
- A Board member believed that the proposed definition might be too narrow compared to the "partner" definition in Part 4A. He suggested that WS1 clarify that it involves any individual who could bind the company regarding professional services, not only assurance services. Mr. Babington noted that WS1 will reconsider the terminology used. However, Mr. Babington and Ms. Sramko explained that the proposed definition was aligned ~~to~~with the a partner definition in the IAASB's standards and meant to capture the same individuals while using more neutral terms. They clarified that the definitions of "service leader" would include individuals who can provide any sustainability-related services, not only sustainability assurance, to the client.

#### WAY FORWARD

WS1 will present the draft International Independence Standards for Sustainability Assurance Engagements and the relevant revisions to the Glossary to the Code for the IESBA's consideration and first-read at its September 2023 meeting.

#### 4. Sustainability Work Stream 2 (WS2)

##### ETHICS FOR SUSTAINABILITY ASSURANCE

##### *Scope of Ethics Standards*

Ms. Leal presented three options for the scope of the ethics standards for sustainability assurance as stated in Agenda Item 4-A:

- Option 1 – Sustainability assurance engagements performed by sustainability assurance practitioners (SAPs) that meet the criteria for independence standards under Part 5 as developed by WS 1;
- Option 2 – Sustainability assurance engagements that meet the criteria for independence standards under Part 5 and other engagements by SAPs for the same clients; and
- Option 3 – All engagements by the SAPs.

Ms. Leal noted that WS2's proposed option is Option 2 for the reasons stated in Agenda Item 4-A. She also presented the proposed changes to the introductory paragraphs of Part 5 that set out the proposed scope as well as how the rest of the Code would apply if the SAP were a PA. She also highlighted the proposal to include an encouragement at the beginning of Part 5 for non-PAs to adopt the high standards of ethical behavior in the Code in situations not covered by Part 5.

IESBA participants generally supported WS2's proposal and raised the following comments, among other matters:

- Although it will be important for the users of the sustainability assurance report to know whether the SAP has followed IESBA standards or other ethics standards, assurance standards and corporate governance frameworks are better placed to address this type of disclosure.
- There were mixed views regarding whether the encouragement for non-PAs to use the Code for engagements not covered by Part 5 should remain as an encouragement or be expressed in stronger terms that can be enforced by regulators.
- Adopting a whole new code at once would require considerable effort for non-PAs and, therefore, a phased approach would be less onerous.

Ms. Leal and Mr. Kwan then presented four specific aspects related to the proposed scope of the ethics standards, namely the concept of “the profession;” the fundamental principle of professional behavior; the use of the terms “professional activity,” “professional services” and “engagement”; and the “applicability paragraphs.”

#### *Concept of “the Profession”*

Ms. Leal explained the need to revise the reference to the accountancy profession in the introduction of extant Part 1 when adapting it to the new Part 5, given that the new Part focuses on a service (sustainability assurance) that can be performed by practitioners from professions other than the accountancy profession. Therefore, WS2’s proposal was to draft corresponding provisions in Part 5 highlighting the public interest in sustainability assurance.

An IESBA participant stressed the importance of highlighting in the proposed standards that SAPs should have the necessary expertise and experience, given that non-PAs may not be part of an established profession. In response, Ms. Leal suggested that a paragraph could be added in the introductory sections of Part 5 addressing that matter.

#### *Fundamental Principle of Professional Behavior*

Ms. Leal explained WS2’s proposal to also replace the extant references to the profession in Subsection 115<sup>3</sup> with references to the service (sustainability assurance) when drafting the corresponding provisions in Part 5.

IESBA participants generally supported WS2’s proposal and raised the following comments, among other matters:

- An IESBA participant suggested deleting paragraph 115.2 A1 because it may not be applicable to practitioners who are not PAs. Other IESBA participants, however, considered it important to retain the paragraph but to add a reference to another appropriate body.
- A suggestion to add a reference to the results anticipated or promised in paragraph R115.2 (a) to highlight the issue of greenwashing.
- The proposed provisions would be very important from a regulatory perspective. Therefore, the requirement not to bring the profession into disrepute should not be weakened. In response, Ms. Leal noted that extant Part 1 will still be applicable to PAs and is not being changed in this regard.

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<sup>3</sup> Subsection 115, *Professional Behavior*



*Use of the Terms “Professional Activity,” “Professional Services” and “Engagement”*

Ms. Leal explained WS2’s proposal to use the term “engagement” in Part 5 instead of the terms “professional activity” and “professional services” in extant Parts 1 and 3, noting that the latter two terms, as defined in the Code, require accountancy or related skills. She explained that any potential revisions to these defined terms would have to be carefully considered, given that they are currently used by professional accountancy organizations (PAOs) for qualification, accreditation and training purposes.

*Applicability Paragraphs*

Mr. Kwan explained that under the extant Code, PAs in public practice (PAPPs) performing audit engagements need to comply with ethics requirements not only in Part 3 of the extant Code but also, in certain situations, with provisions in Part 2 (via the so-called “applicability paragraphs”). Mr. Kwan noted WS2’s proposal to only include in Part 5 an equivalent of Part 3. This is because the purpose of the project is to focus on the provision of sustainability assurance services to clients while the application of extant Part 2 (via the applicability paragraphs) to PAPPs essentially deals with their relationship with the firm. However, he pointed out that there are certain Sections in Part 2, notably Sections 220 (preparation and presentation of information) and 270 (pressure to breach the fundamental principles), that may also apply to the PAPP’s relationship with the client. He explained that WS2 did not consider it necessary to include an equivalent to Section 220 in Part 5, since that Section deals with reporting, not assurance, activities. However, WS2 proposed to make a reference to the content of Section 270 in the introductory paragraphs of Part 5.

While generally supportive of WS2’s proposal with regards to extant Part 2, IESBA participants agreed to include an equivalent of Section 270 in the new Part 5 instead of just a reference. It was noted that pressure is a relevant matter for sustainability assurance, especially from a greenwashing perspective.

An IESBA participant also suggested that WS2 analyze each remaining Section in Part 2 to confirm whether it would be relevant from a sustainability assurance perspective and, therefore, whether it should be included in Part 5.

Following WS2’s deliberation of the Board’s feedback, Ms. Leal conveyed WS2’s revised proposals as follows:

- To include in Part 5 an equivalent of Section 270 because pressure to breach the fundamental principles (regardless of where it may come from) may compromise the performance of the sustainability assurance engagement and therefore impair public trust in the assurance report. Further, WS2 noted that the guidance is important from a greenwashing perspective and that it is not explicitly addressed in extant Part 1.
- Not to include an equivalent of Sections 220 and 240 in Part 5 as these Sections deal with activities other than assurance and are thus excluded from the scope of the project.
- Not to include an equivalent of Sections 200, 210, 230, 250 and 260 in Part 5 because their impact on the sustainability assurance engagement underpinning public trust in the sustainability information is not immediately clear. Although it is important for SAPs ~~that~~ who are non-PAs to behave ethically in all aspects of their activities, that will be covered by the encouragement in the introductory paragraphs of Part 5.
- With regards to Section 230, the WS2 considered that it is covered by the fundamental principles of integrity and professional competence, and therefore, it is not essential to include that Section. Nevertheless, WS2 also recognized that the sustainability assurance market is currently mostly

unregulated. Thus, including an equivalent of Section 230 in Part 5 could have the advantage of providing some guidance to practitioners. Upon deliberation, the IESBA requested WS2 to prepare a draft equivalent Section 230 for its consideration at the next meeting before deciding whether to include it in Part 5.

*Proposed Draft for Part 5 – Equivalent Part 3*

Ms. Martin presented some examples of self-review and advocacy threats to be included in the new Part 5 (under the equivalent Part 3 of the Code), noting that feedback from the SRG on these examples was still pending.

IESBA participants were generally supportive of WS2's preliminary draft and made some suggestions for additional examples, clarification of some wording, and the use of consistent language with proposed ISSA 5000.

Ms. Martin also presented the following WS2 proposals on the equivalent Section 360 in Part 5 regarding non-compliance with laws or regulations (NOCLAR):

- WS2's proposal to use the set of provisions for "Audits of Financial Statements" in extant Section 360 as the basis for the procedures to be followed by SAPs when encountering NOCLAR or suspected NOCLAR, and to include certain provisions from "Professional Services Other than Audits of Financial Statements" in extant Section 360 as appropriate (i.e., the provisions under "Communicating the Matter to the Sustainability Assurance Client's External Auditor").

Among other matters, IESBA participants raised the following comments:

- Whether there should be a mirror requirement in the extant Code for the auditor to consider communicating the NOCLAR or suspected NOCLAR to the SAP.
- Whether there should be bilateral communication between the auditor and the SAP for other matters and whether such matters should be considered by the IESBA as a separate work stream.
- WS2's proposal not to include in Part 5 the last bullet in extant paragraph 360.34 A1 as a factor when considering whether to communicate the NOCLAR or suspected NOCLAR with the auditor since SAPs who are not PAs should not be required to understand the likely materiality of the matter to an audit of the financial statements.

While supportive of WS2's proposal not to retain this factor, IESBA participants expressed the view that the factor should be replaced with a new factor about the significance of the matter or event in the context of an audit of the financial statements.

Some IESBA participants also questioned whether the NOCLAR provisions should also address situations of non-compliance or suspected non-compliance with voluntary commitments, given the relevance of greenwashing in the sustainability field. Other IESBA participants were of the view that the provisions under the fundamental principles and the conceptual framework, which include having an inquiring mind, may already address those situations and that going beyond laws and regulations would be too onerous for the SAPs. Upon deliberation, the IESBA agreed not to expand the scope of the equivalent Section 360 under Part 5.

Following WS2's deliberation of the Board's feedback, Ms. Leal conveyed WS2's views as follows:

- WS2 will seek clarification from the IAASB's Sustainability Task Force regarding the general conditions on which an auditor would communicate a matter with a SAP. Regarding such communication where the matter relates to NOCLAR or suspected NOCLAR (i.e., amending extant Section 360), WS2 is of the view that there are confidentiality and professional secrecy issues that might prevent the auditor from communicating freely with other parties. WS2 believes that the upcoming post-implementation review (PIR) of the NOCLAR provisions would be a more suitable mechanism to consider holistically whether any changes are needed to extant Section 360.
- Regarding the factor in the last bullet of extant paragraph 360.34 A1, WS2 will seek the SRG's views on whether it is adequate to include in the new Part 5 such a factor for a PA to also consider.

#### ETHICS STANDARDS FOR SUSTAINABILITY REPORTING

Ms. Martin reiterated WS2's proposal in March 2023 to set the scope of the ethics standards for sustainability reporting to PAs only, which was generally supported by the Board as well as participants at the sustainability global roundtables. Under this proposal, WS2 would revise Part 2 of the extant Code to include ethics standards for sustainability reporting for PAs only. She added that the IESBA could consider, as a separate work stream, commissioning the development of guidance material based on Part 2 for preparers of sustainability information who are not PAs, for voluntary adoption by entities.

IESBA participants supported WS2's proposal and recognized the importance of the goal of developing ethics standards for sustainability reporting that could be used by all preparers. Among other matters, IESBA participants suggested that WS2 consider:

- Developing a separate section under extant Part 2 for sustainability reporting (addressing ethics issues such as greenwashing).
- Including an encouragement in Part 5 for non-PAs in the sustainability field to apply the Code in all their activities, including sustainability reporting.
- Issuing a public statement in conjunction with the release of the Exposure Draft to emphasize the public interest in all preparers of sustainability information to be subject to the same high ethics standards.

#### KEY DEFINITIONS

##### Sustainability Information

Mss. Martin and Leal presented WS2's revised draft definition of "sustainability information," which took into consideration feedback from the March 2023 CAG and IESBA meetings, and the terms and definitions used in other global standards or related literature, including the draft ISSA 5000. They explained that WS2 is of the view that the term "sustainability information" is preferred over other terms, such as "sustainability matters," taking into account the PIF characteristics and that the term should be defined in the Code. Ms. Leal further highlighted the alignment between WS2's draft definition and the draft definition set out in the draft ISSA 5000.

Ms. Leal explained WS2's revised draft definition (including the description component) and the revisions made to the previous draft to accommodate the CAG's and IESBA's feedback from March 2023. She noted that the draft definition has a similar structure as the definition of "historical financial information" in the Glossary.

Among other matters, IESBA participants suggested that a reference to an entity's policies, plans and commitments as well as a reference to past performance be included in the description. It was also suggested that information defined as sustainability information by laws, regulations or other frameworks should form part of the Code's definition.

#### Sustainability Assurance Practitioner

Ms. Martin presented WS2's proposal to use the term "sustainability assurance practitioner" instead of "sustainability assurance provider" for consistency with the proposed ISSA 5000, taking into account the support from the SRG.

IESBA participants were generally supportive of the term, with an IESBA participant highlighting the need for the definition to include the firm.

#### Professional Activity

Ms. Martin presented WS2's proposal to use the term "engagement" in Part 5 to denote a sustainability assurance engagement or other type of service provided by a SAP to a client, instead of "professional activity" or "professional service." She explained WS2's rationale, including that care should be taken in revising the extant definition of "professional activity" given that it is used by some PAOs for the purposes of certification, qualification and training. She further highlighted WS2's view that the extant definition of "professional activity" is sufficiently broad to cover sustainability reporting by PAs.

Among other matters, IESBA participants raised the following comments for WS2's consideration:

- The reference to "accountancy" or "accounting" in the extant definition is not broad enough to encompass sustainability activities.
- A suggestion to liaise with staff supporting IFAC's International Panel on Accountancy Education (IPAE) to confirm if and what changes have been made to the education standards to reflect sustainability-related developments.
- A suggestion to add a sentence to the extant definition explaining that in Part 5, the term "engagement" is used instead of professional activity.

#### SCOPE OF WS2'S WORK

Ms. Martin presented WS2's proposal that the following two matters included in the approved [project proposal](#) be considered by the IESBA under separate work streams:

- Whether ethics responsibilities should vary based on the role and seniority of PAs in business (PAIBs) in the employing organization.
- Whether a new section should be added to extant Part 3 to guide PAPPs engaged to assist their clients in sustainability-related tasks and activities other than sustainability assurance.

IESBA participants were supportive of the WS2's proposal.

#### PIOB OBSERVER'S REMARKS

With regards to the scope of the ethics standards for sustainability assurance, Ms. Giner noted that WS2's proposals seemed reasonable, taking into consideration the project's time constraints. Further, Ms. Giner

encouraged the IESBA to carefully consider the language and terms used in Part 5 to ensure that it can be understood and used by non-PAs.

With regards to the scope of the ethics standards for sustainability reporting, Ms. Giner queried the need for the IESBA to limit the scope to PAs only. In response, Mr. Siong clarified that the issue of expanding the scope of the Code to all preparers is a strategic matter that needs to be considered holistically and will require engagement with a broad range of stakeholders, including the preparer, regulatory and corporate governance communities. The work effort this would entail could not realistically be covered in this project given its tight timeframe.

With regards to the proposed definitions, Ms. Giner encouraged the IESBA and the IAASB to use consistent definitions in their respective standards.

#### WAY FORWARD

WS2 will circulate a revised draft of the proposed text mid-Q3 for the IESBA's advance input, which WS2 will take into account as it develops the first read of the proposed text for the September 2023 IESBA meeting.

### 5. Use of Experts

Ms. Endsley, Chair of the Use of Experts Task Force, introduced the topic by providing a brief recap on the Task Force's preliminary thinking as discussed at the March 2023 IESBA meeting and the Task Force activities since then. Mss. Endsley and Leung then shared feedback from the global roundtables held in late March/early April 2023 and outlined how the Task Force has considered and addressed such feedback in its proposed approach. In particular, Mss. Endsley and Leung highlighted the Task Force's considerations and thinking in relation to the:

- The proposed definitions of the terms "expert," "expertise" and "external expert."
- The interactions between the concept of an expert with the definitions of engagement team, audit team and assurance team.
- Whether to take an objectivity or independence approach with respect to an external expert in an audit or assurance context.
- The proposed evaluation of the competence, capabilities and objectivity of experts to be performed by a PA before the expert can be used.

The IESBA considered and provided feedback on the Task Force's proposed approach to addressing the ethics and independence considerations regarding the use of experts, including external experts in an audit or assurance context. The following key comments were raised.

#### RATIONALE FOR THE PROJECT

A few IESBA members who moderated the Experts session at the global roundtables shared their observation that a few roundtable participants did not understand the rationale for the project as they viewed that the IAASB's standards sufficiently address the ethical requirements regarding using the work of an external expert in an audit or other assurance context. These IESBA members supported the Task Force's proposal to include a detailed explanation of the rationale for the project in the explanatory memorandum to the Exposure Draft. In this regard, an IESBA member highlighted that despite a few roundtable participants questioning the necessity of the project, these participants expressed support for the ethical

expectation that a PA conducts a specific evaluation of the external expert's interests in, and relationships with, the client in order to evaluate the expert's objectivity.

Mr. Siong reminded the IESBA that the approved project is aimed at addressing stakeholder questions over what the ethics and independence expectations should be for experts when PAIBs and PAPPs use their work, whether an expert is employed or engaged by a PA's employing organization or firm. Such questions have been raised in previous and ongoing IESBA projects, such as Engagement Team – Group Audits (ET-GA), Technology, Tax Planning, and Sustainability. In particular, the project is also addressing the open question from the ET-GA project as to whether external experts used in an audit or other assurance engagement should be independent.

Mr. Siong also noted that the project covers experts used in any field or context and is not limited to the use of experts for sustainability assurance only. Finally, he highlighted that although the IAASB's standards establish a broad requirement for a PA to evaluate an external expert's competence, capabilities and objectivity in an audit or other assurance context, those standards focus on the performance of an audit or other assurance engagement rather than address the ethical behavior of a PA before, and when, using the work of an expert.

#### CONCEPT OF AN EXPERT AND INTERACTIONS WITH THE CONCEPTS OF ENGAGEMENT TEAM, AUDIT TEAM AND ASSURANCE TEAM

An IESBA member questioned whether an internal auditor would meet the proposed definition of [an](#) expert from the perspective of an expert employed by a PA's employing organization. Ms. Leung noted that the concept of an expert [as](#) contemplated by the Task Force [does](#) not include an internal auditor. She indicated that the Task Force would consider if the proposed definition of an expert could be further clarified in this regard.

Ms. Giner questioned the rationale for having different expectations for experts who are engagement team, audit team or assurance team members, versus external experts who are not under the direction, supervision and review of the firm. Ms. Leung explained that the expectations will depend on the role of the expert in an audit or other assurance engagement:

- If the expert performs audit or other assurance procedures for the engagement, they are an engagement team member, and therefore [subject](#) to independence.
- If the expert provides consultation on the audit or other assurance engagement and the expert's advice can directly influence the outcome of the engagement, they are an audit team or assurance team member, and therefore [subject](#) to independence.
- If the expert is engaged by the PA's firm and their work is used to assist the PA in obtaining sufficient appropriate evidence, they are an external expert and the PA is required to evaluate their objectivity before the PA can use the expert's work.

Ms. Leung highlighted that while independence is required for [the](#) engagement team, audit team and assurance team members as they are under the direction, supervision and review of the firm and the firm has a system of quality management in place to monitor such independence, external experts do not have such systems in place as they do not perform assurance engagements and are therefore not subject to the IAASB's quality management standards. Therefore, the onus is on the PA to ensure that if the PA intends to use the work of an external expert, the external expert is objective.



## OBJECTIVITY OR INDEPENDENCE FOR AN EXTERNAL EXPERT IN AN AUDIT OR ASSURANCE CONTEXT

Ms. Endsley provided an overview of the Task Force's revised thinking and proposal for a PA to evaluate the objectivity of an external expert, given the mixed feedback from the global roundtables regarding the Task Force's initial thinking to require external experts to adhere to select independence requirements if they significantly influence the outcome of the engagement.

Considering as an analogy the use of component auditor firms outside of a group auditor firm's network in a group audit, where component auditor firms are required to confirm their independence to the group auditor firm, Mr. Siong questioned whether an external expert can be required to confirm its independence to the PA. Ms. Endsley responded that the onus should be placed on both the PA and the external expert, since the underlying principle of using an external expert's work in an audit or other assurance engagement is that the PA needs to perform procedures over the expert's work in order to assess whether it can be used for purposes of gathering sufficient appropriate evidence. This differs from component auditor firms, which are actually performing audit procedures for the group audit.

The following key comments about the Task Force's current proposal were raised:

- Knowing whether the external expert is objective or independent is crucial to the reliability of the audit or assurance report. If the onus is not on the PA to evaluate this, it would be placed on stakeholders that use the audit or assurance report. However, since the PA is being paid to perform the assurance work, it should be the PA who should validate the objectivity or independence of the external expert.
- The onus should be on the PA to evaluate the external expert's objectivity. This will include communicating the specific expectations to the external expert so that the external expert can respond in an informed manner. The PA should then perform their own assessment of the external expert's responses. For example, the PA could also inquire with the client regarding any interests or relationships they might have with the external expert in order to assess the reliability of the external expert's responses.
- A principles-based approach to evaluating the external expert's objectivity is reasonable, but this should be supplemented with a prohibition against using an external expert if they have financial interests, business relationships or loans with the client. It was also suggested to consider whether the approach should be scalable and proportionate, for example, external experts used in a PIE audit versus non-PIE audit.
- A view that the approach should focus on the external expert's independence rather than their objectivity. It was noted that a regulator in a specific jurisdiction had emphasized the importance of independence for external experts, since their work is often material to an engagement.
- An observation that whether the approach for external experts should be an objectivity-based evaluation or a requirement for independence has two opposing considerations. Firstly, the onus is on the PA to determine whether the work of an external expert can be relied on to obtain sufficient appropriate evidence in an audit or other assurance engagement. Secondly, there is a public perception that the external expert should be independent. The Task Force's approach therefore has to balance these two perspectives.

Ms. Dias emphasized the importance of addressing the use of external experts in the ecosystem. She commented that the roundtable feedback had noted that external experts do not understand independence and that currently, ensuring the objectivity of external experts is already challenging. Such feedback supports the Task Force's endeavors in this respect. Specifically, the onus should be on the PA to do this.

Ms. Dias also noted that the Task Force would have to consider how its proposed approach would apply to non-PAs in the context of Part 5 sustainability assurance in due course.

IESBA participants also raised other considerations, including the following:

- The key challenge is the evaluation of an external expert's competence because there is a presumption that an expert will always have the relevant expertise, which might not be the case, especially in emerging fields. Therefore, it is important to have guidance in this regard, in particular for small and medium practices (SMPs), to prevent undue reliance on presumptions of an expert's competence.
- The requirement to evaluate an external expert's objectivity should also extend to the expert's team and its organization.
- It might be challenging for a PA to obtain the relevant information to evaluate an external expert's objectivity due to privacy or confidentiality reasons.
- Consideration should be given to introducing transparency requirements for the PA in relation to the selection of an external expert.
- Whether the ethical expectations pertaining to the use of a management's expert versus the use of an external expert are different.
- Some corporate governance codes might contain useful other considerations, such as whether an independent director still has retirement or health plans with the company if they previously worked at the company.
- Whether there are any safeguards to address threats created by using an external expert who is not objective.

Finally, IESBA participants also discussed the circumstances where there is a limited number of objective external experts due to market circumstances:

- There were views that if an external expert is used, such an expert should always be objective. There should not be a lower threshold to accommodate an emerging market or other market conditions in specific jurisdictions.
- On the other hand, there were views that external experts who are not objective can still be used by PAs if appropriate transparency is provided to stakeholders, for example, through disclosures in the audit or other assurance report or through communication with those charged with governance.

In this regard, it was noted that if the work of an external expert who is not objective cannot be used in an audit or other assurance engagement, there might be a limitation in scope in terms of the audit or assurance report. There was also a caution that introducing transparency as a mitigating action for objectivity would shift the onus to evaluate an external expert's objectivity from the PA to stakeholders.

#### EVALUATION OF THE EXPERT'S WORK

A few IESBA members questioned if the guidance in relation to the evaluation of the expert's work is necessary since the IAASB's standards already address such evaluation. Other IESBA members noted that such guidance is necessary for experts used in non-assurance services and in the context of Part 5 sustainability assurance for non-PAs who might not be applying the IAASB's standards.

Mr. Siong reminded the IESBA that the provisions are being developed to address the PA's ethical behavior when they use an expert's work rather than from the perspective of performing audit or assurance procedures.

#### USE OF MULTIPLE EXPERTS

Some IESBA members noted that it was unclear how the use of multiple experts would increase the level of threats to compliance with the fundamental principles. It was viewed that if each expert is evaluated appropriately, then the level of threats would not necessarily increase. In this regard, there was also a view that the guidance on multiple experts is not necessary. However, there was also a view that the guidance was still beneficial for readers. It was observed that where smaller to mid-tier firms take on engagements in emerging fields or for more significant clients, the use of multiple experts will become more common, and that in this regard, such guidance is important.

It was highlighted that the main challenge with, and risk of, using multiple experts in an engagement is that the engagement partner unduly relies on multiple experts for the engagement and becomes more like a "general contractor." In this regard, the importance of the engagement partner being fully accountable for the overall opinion was emphasized. There was also a view that there should be disclosure of how many experts have been used to those charged with governance.

#### DOCUMENTATION

The IESBA expressed general support for the Task Force's documentation proposals. There was a view that this is an effective tool against greenwashing. There was also a suggestion to consider the documentation implications for PAIBs versus PAPPs.

#### PIOB OBSERVER'S REMARKS

Ms. Giner complimented the IESBA on the in-depth discussions on this topic. She also commented that more guidance or explanation is needed as to how to delineate between individuals who are providing technical consultation and are therefore part of the audit team or assurance team and subject to independence, and individuals who are external experts and not subject to independence.

#### WAY FORWARD

The IESBA will consider a first-read draft of the proposed provisions addressing the use of experts at its September 2023 meeting.

## **6. Tax Planning and Related Services**

Prof. Poll and Ms. Vijian provided an update on the Task Force's activities since December 2022, the three global webinars in February 2023 to inform stakeholders on the key proposals in the February 2023 Exposure Draft (ED), [Proposed Revisions to The Code Addressing Tax Planning And Related Services](#), and recent outreach activities with stakeholders such as the European Commission and CFE Tax Advisers.

Prof. Poll and Ms. Vijian then provided an update on the preliminary significant matters raised by respondents to the ED.

The IESBA considered the common themes from the early comments received on the ED. Among other matters, the following were raised:

- Regarding concerns that the stand-back test in the ED is too broad and could result in uncertainty, confusion, and second-guessing of the PA's professional judgment, Mr. Siong noted that concerns about second-guessing had been expressed in other IESBA projects in the past. He added that it has never been the Board's intention to submit PAs to second-guessing as the Code's provisions are developed on the premise that PAs will act in good faith in applying them. He suggested that the Task Force consider highlighting this "good faith" principle in the revised provisions.
- An IESBA member wondered about the interaction between the Tax Planning and Sustainability projects, for example, whether in providing a tax planning service, a PA could inadvertently be promoting a tax strategy that is not perceived as sustainable in the particular jurisdiction. Prof. Poll noted that tax policies or strategies are part of the sustainability framework in some jurisdictions. He also observed that while the "stand back" test touches on consideration of the impact of a tax planning arrangement on the tax base of a jurisdiction, the test is not explicitly described as being linked to sustainability.

Mr. Siong also briefed the Board on the Task Force's recent meeting with representatives from the European Commission (EC), who reviewed the key proposals in the ED and expressed their observation that there are no matters in the ED that would contradict the EC's effort to put in place a regulatory framework to address the role of tax advisers in tax evasion and aggressive tax avoidance. Mr. Siong added that the EC representatives saw the IESBA's tax planning project as being supportive of, and complementary to, the ongoing regulatory efforts in the European Union to combat the issue of tax evasion and aggressive tax avoidance.

#### PIOB OBSERVER'S REMARKS

Ms. Giner appreciated the IESBA's commitment to addressing the ethical considerations of PAs with respect to tax planning in this project. She also commended the IESBA's efforts to address matters of transparency. She emphasized the importance of the IESBA maintaining a high bar of ethical behavior in tax planning regardless of the lack of professional conduct noted in other professions. She encouraged the IESBA to widen its consultation efforts to other stakeholders outside the profession. Finally, she noted the PIOB's ongoing support for the IESBA's direction in developing a principles-based ethical framework for tax planning.

#### WAY FORWARD

The Tax Planning Task Force will present a full analysis of respondents' comments to the ED and its revised proposals to the Board at its September 2023 meeting.

## 7. PIE Rollout

#### TRACK 1 OF IAASB PIE PROJECT

Mr. Kim, IESBA PIE Rollout Working Group member, provided an overview of the March 2023 IAASB discussions on Track 1 of the [IAASB PIE Project](#).

Mr. Kim then provided a summary of the IAASB PIE Task Force's [proposals](#) for which they will seek approval during the June 2023 IAASB meeting. Among other matters, the IAASB PIE Task Force proposed:

- Refinements to paragraphs 28(c), 50 and A35A of International Standard on Auditing (ISA) 700 (Revised),<sup>4</sup> which will operationalize the transparency provision in paragraph R400.20 of the [IESBA PIE Revisions](#).
- An effective date of December 15, 2024 which aligns with that of the IESBA PIE Revisions.

Mr. Kim noted that the Working Group supports the relevant proposed revisions by the IAASB PIE Task Force. He also provided a brief overview of the anticipated next steps relating to Tracks 1 and 2 of the IAASB PIE Project.<sup>5</sup>

#### JURISDICTIONAL DATABASE

Mr. Mintzer, Working Group Chair, informed the IESBA that the Staff-prepared jurisdictional PIE definitions [database](#) was released in April 2023. He noted that the database covers 78 jurisdictions and was developed to support the adoption and implementation of the IESBA PIE revisions. An IESBA participant encouraged the Board to proactively promote the database through social and other media as it is helpful for jurisdictions to be aware of how a PIE is defined in other jurisdictions as they work through the adoption process.

#### PIOB OBSERVER'S REMARKS

Ms. Giner commended the IESBA PIE Rollout Working Group on its work and also encouraged the further promotion of the jurisdictional database.

#### WAY FORWARD

Mr. Kwan indicated that the IESBA PIE Rollout Working Group will consider the issue raised by some respondents to the [IAASB Exposure Draft](#) concerning the fact that the auditor's report is not always made available to the public, or may have limited distribution. The Working Group will report back to the Board in due course.

### 8. IAASB-IESBA Coordination

Ms. Adam, IESBA Coordination Liaison to the IAASB, briefed the Board on coordination activities with the IAASB since March 2023. As a reminder, she outlined the coordination principles described in the IAASB-IESBA Coordination Framework and the maintenance of the master workbook of coordination matters by the two Boards' staff. She also reminded the Board of the past effective coordination engagements with the IAASB.

Concerning current projects, Ms. Adam noted ongoing coordination on some of the projects, such as Sustainability and Track 1 of the IAASB's Listed Entity/Public Interest Entity project. In relation to the IAASB's project to revise its fraud auditing standard, ISA 240, she noted the timeline for the exposure draft. She also noted that as the IAASB progresses [with](#) the project, some matters, such as the definition of fraud and possible additional guidance on the term "professional skepticism," might require input from the IESBA.

Ms. Dias then welcomed Ms. Julie Corden, Chair of the IAASB's Fraud Task Force, to brief the IESBA on the key proposals the Fraud Task Force would be presenting to the IAASB at its June 2023 meeting.

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<sup>4</sup> International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>5</sup> The IAASB approved the final text under Track 1 of the IAASB PIE Project at its June 2023 meeting.

Finally, with regards to IAASB initiatives that may require coordination, Ms. Vijian drew the Board's attention to the IAASB's Going Concern, Audit of Less Complex Entities (LCE), and Audit Evidence projects.

The Board noted the importance of the coordination efforts, especially on the Sustainability work stream going forward.

## **9. Technology**

Mr. Clark, Chair of the Technology Working Group (TWG), commenced the session by paying tribute to Mr. Brian Friedrich, recognizing his significant contributions to the IESBA, especially on the IESBA's recent technology-related work streams. He presented the updated [terms of reference](#) for the Working Group based on four pillars following the completion of the [Technology Working Group's Phase 2 report](#) in September 2022. The four pillars consist of internal board education; environmental scanning; ad-hoc analysis of technology impacts on other workstreams as needed; and facilitating the implementation of the recommendations in the Phase 2 Report.

The IESBA approved the terms of reference as presented.

Mr. Clark then provided an update on the Working Group's activities, including highlights of the meeting held with the Technology Experts Group (TEG) in May 2023. The key takeaways from the meeting included the following:

- There has been a diverse range of reactions by PAs in response to rapidly changing technologies, such as generative artificial intelligence (AI).
- The responsibility of PAs to educate themselves to understand the capabilities and limitations of technologies used.
- Regardless of the technology used, PAs are accountable for assessing the reliability of the underlying information and the accuracy of the output.
- From a governance perspective, usage policies are critical to ensure that risks arising from the use of technology have been adequately addressed.
- Client confidentiality should be factored into PAs' decisions about which technology to use and the extent to which related information is shared.
- PAs need to elevate and expedite their professional training, knowledge, experience, and skillsets to keep up with the pace of technological change.

Other topics mentioned by the TEG for the Working Group to consider include AI in the context of fraud, blockchain, cryptocurrencies, digital assets, smart contracts, and digital signatures. The TEG agreed that guiding principles are key; however, the challenge lies in the practical application of these principles.

### **EDUCATIONAL SESSION**

Mr. Clark introduced Ms. Danielle Supkis Cheek, Vice President of Strategy and Industry Relations at MindBridge AI, who presented an educational session on generative AI, large language models, and data governance. The session, which built on the introduction to ChatGPT provided during the March 2023 IESBA meeting, discussed the nuances of ethical considerations regarding the general use of AI, the practical uses of AI in assurance engagements, and the effective supervision of AI tools.

IESBA members commended Ms. Supkis Cheek on the insightful presentation. Among other matters, the following were raised:



- In response to a comment about hallucinations from ChatGPT, Ms. Supkis Cheek highlighted that each model or service provider has its own attributes and requirements, so [the](#) development of policies that establish criteria for assessing service providers is important.
- Whether the new [technology-related revisions](#) to the Code will be outdated before they become effective in December 2024. Ms. Supkis Cheek responded that the revisions are principles-based and should be resilient enough to withstand the test of time. Mr. Clark indicated that this will be monitored by the Working Group and, by extension, the TEG going forward.
- Whether AI could be considered an expert. Ms. Supkis Cheek indicated that expert systems already exist, and certain parts of the Code regarding reliance on experts may be applicable depending on the system's output.
- Whether there are other jurisdictions that have developed similar regulations as the [EU AI Act](#). Ms. Supkis Cheek indicated that the EU AI Act and the [Montreal Declaration](#) are well-developed regulations that require service providers to disclose their compliance with ethical developmental principles.
- Whether there are systems that are being developed to make judgments and determine compliance. Ms. Supkis Cheek responded that most technologies are developed on a predictive model basis with judgment remaining a human intellect concept. Systems in [the](#) future would probably only make recommendations related to judgments.
- How PAs can effectively manage the velocity of change. Ms. Supkis Cheek responded by referring to the principles of change management and tools [on-for](#) maintaining competency amidst recent developments.

Ms. Dias thanked Mr. Clark and Ms. Supkis Cheek for their helpful and informative presentations.

#### WAY FORWARD

The Working Group will provide an educational session on AI and Fraud for the IESBA's consideration at its September 2023 meeting.

#### 10. PIOB Observer's Remarks

Ms. Giner congratulated the Board on an intense and successful meeting. She noted the significant strides the Board had taken on several projects, notably the Sustainability and Use of Experts projects. She also noted the good discussions on the key issues in the projects and highlighted that these issues are particularly relevant from the public interest perspective. Looking ahead to the Board's workplan for the upcoming months, she was of the view that the Board is firmly on course to meet its year-end objectives.

In closing, Ms. Giner praised IESBA members on their exceptional dedication and expressed her sincere appreciation for the opportunity to observe the meeting.

#### 11. Closing Remarks

Ms. Dias expressed her satisfaction with the progress made during the five-day meeting, both in terms of project development and the collaborative approach to discussions. She acknowledged the pressures Task Forces, Working Groups and staff went through in preparing for the Board meeting, and stressed the need for sensitivity in navigating the challenges.

Regarding the Sustainability project, Ms. Dias highlighted the complexity and uncertainty surrounding the issues due to the susceptibility of sustainability reporting to political movements and trends. She underscored the importance of understanding that sustainability is a one-way journey with no return, and while different approaches may exist globally, regulations and standards will ensure its continued relevance.

Ms. Dias expressed her confidence in the Board's approach, which she felt is founded on solid principles rather than being influenced by fleeting trends. She encouraged optimism about the Board's direction and underscored the significant positive influence of collaboration with experts in expanding the reach of the Code.

In closing, Ms. Dias conveyed her gratitude to all the participants, and especially to the staff who contributed to the meeting's seamless execution. She also thanked IFAC for hosting the meeting.

## **12. Next Meeting**

The next Board meeting is scheduled for September 18-22, 2023, to be held in person in New York, USA.