

Agenda Item

A-1

Meeting: IESBA Consultative Advisory Group

Meeting Location: New York

Meeting Date: March 6, 2023

Draft Minutes of the Public Session of the Meeting of the INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS CONSULTATIVE ADVISORY GROUP (CAG)

Held Virtually on September 6 and 23, 2022

PRESENT

Gaylen Hansen (Chair)

Hilde Blomme

Prof. Hysen Cela

James Dalkin

Jazmin Gamboa

Harrison Greene

Akihito Ishiwata

Natasha Landell-Mills

Dr. Bello Lawal Danbatta

Dr. Conchita Manabat

Wei Meng

Asha Mubarak

Dr. Christian Orth

Jeanne Riggs

Daniel Sarmiento Pavas

Sandra Peters

Sanders Shaffer

Paul Sobel

Peter Stokhof

Paul Thompson

Huseyin Yurdakul

Member Organizations

National Association of State Boards of Accountancy (NASBA)

Accountancy Europe (AE)

European Federation of Accountants and Auditors for SMEs (EFAA)

International Organization of Supreme Audit Institutions (INTOSAI)

Financial Executives International (FEI)

Basel Committee on Banking Supervision (Basel Committee)

International Organization of Securities Commissions (IOSCO)

International Corporate Governance Network (ICGN)

Islamic Financial Services Board (IFSB)

International Association of Financial Executives Institutes (IAFEI)

World Federation of Exchanges (WFE)

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

AE

IOSCO

Inter-American Accounting Association (IAA)

Chartered Financial Analyst (CFA)

International Association of Insurance Supervisors (IAIS)

Institute of Internal Auditors (IIA)

Organisation for Economic Co-operation and Development (OECD)

EFAA

IOSCO

Observer Organizations

Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Advisory Group (SMPAG)
Barbara Vanich ¹	U.S. Public Company Accounting Oversight Board (PCAOB)

Public Interest Oversight Board (PIOB)

Dave Sullivan

IESBA Members and Staff

Gabriela Figueiredo Dias	IESBA Chair
Caroline Lee	IESBA Deputy Chair
Mark Babington	IESBA Member and Sustainability Working Group Chair (September 23 only)
Brian Friedrich	IESBA Member and Technology Working Group Chair (September 6 only)
Rich Huesken	IESBA Member and Technology Task Force Chair (September 23 only)
Prof. Jens Poll	IESBA Member and Tax Planning Task Force Chair (September 6 only)
James Gunn	Managing Director, Professional Standards
Ken Siong	IESBA Program and Senior Director
Diane Jules	IESBA Director
Geoffrey Kwan	IESBA Director
Kam Leung	IESBA Principal
Carla Vijian	IESBA Principal
Szilvia Sramko	IESBA Senior Manager

APOLOGIES

Member Organization

George Kabwe	International Monetary Fund (IMF)
Dr. Claes Norberg	Business Europe (BE)
Juan Carlos Serrano-Machorro	World Bank (WB)

¹ Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or PCAOB Board members or staff.

A. Opening Remarks

Mr. Hansen welcomed all participants to the meeting. He specially welcomed Ms. Dias, and Ms. Lee, as well as Mr. Sullivan as the PIOB Observer.

Mr. Hansen also welcomed Ms. Jeanne Riggs who is replacing Paul Munter as the new representative for IOSCO; Mr. Peter Stokhof who is replacing Ms. Inanc Yazar as the new representative for OECD, and Ms. Sandra Peters who is replacing Ms. Mohini Singh as the new presentative for CFA Institute.

Mr. Hansen bid farewell to Mr. Munter, Ms. Yazar, and Ms. Singh, and thanked them for their contributions to the CAG over the years.

APPROVAL OF MINUTES

The CAG approved the minutes of the March 2022 public session as presented.

B. Tax Planning and Related Services

Prof. Poll, Chair of the Tax Planning Task Force, introduced the topic, informing CAG Representatives of the session's objectives. He started his presentation by discussing the Task Force's summary of the significant feedback received from the three global virtual roundtables held in April 2022. Prof. Poll then presented the Task Force's preliminary views and responses to the roundtable input on the key elements of the proposed ethical framework to guide professional accountants' (PAs) ethical judgments and actions when providing tax planning (TP) services.

The CAG considered the common themes and key messages received across the three roundtables and the TF's preliminary views and responses. Among other matters, the following were raised:

ROLE OF THE PA IN ACTING IN THE PUBLIC INTEREST

- Mr. Sobel expressed support for the direction of the Task Force's proposal. He wondered whether a company would accept the tax advice if the tax arrangement is technically legal but not considered appropriate or in the public interest. Prof. Poll responded that the Task Force's proposals address circumstances where there is a disagreement between the PA and the client.
- Ms. Landell-Mills highlighted the potential conflict of interest for auditors to be providing TP services to audit clients. In her view, such conflict would not be in the public interest. She acknowledged that there are a lot of benefits for companies to receive tax advice but she wondered why such advice needed to be provided by auditors. She commented that independence is vital to the audit. She added that there is much academic evidence indicating that actual tax payments are not aligned to the underlying economic activities, given the intent of the tax laws.

Prof. Poll clarified that the proposals presented by the Task Force would apply to PAs in public practice (PAPPs) and do not address auditor independence, which is dealt with in Section 604 of the Code. He added that the IESBA's recently revised NAS provisions would prohibit the provision of TP services that might create a self-review threat in the case of PIE audit clients. He indicated that this point will be clarified in the explanatory memorandum to the Exposure Draft.

- Mr. Ishiwata noted that some jurisdictions have issued codes of conduct for TP services. He recommended that the Task Force consider such codes of conduct available in the market.
- Mr. Yurdakul sought clarification regarding whether there is a conflict between the public interest and the client's interest. He was of the view that while there is a need for a balance between the

two, protecting and promoting the public interest should take precedence. He added that TP should be about compliance with tax laws and regulations as opposed to interpreting the tax legislation to gain tax benefits.

- Mr. Thompson shared the latest development in the EU, where the European Commission had recently issued a survey seeking stakeholders' views on the topics of tax evasion and aggressive TP and the role of professional enablers of such services. He added that the EC seemed to be considering a code of conduct for tax professionals to minimize the issues of tax evasion and aggressive TP.
- Dr. Manabat noted the difficulty in balancing the client's interest and the public interest. She echoed the observation of others, noting that tax legislation is subject to different interpretation. She advised the Task Force to consider the various jurisdictional laws and regulations.
- Ms. McGeachy-Colby shared her appreciation for the direction the Task Force has taken in promoting the public interest. She expressed a concern about increasing the expectation gap in that PAs should not become enforcers of the public interest. She requested the Task Force to be cautious about the adoptability of the provisions. She added that there is also a perception that PAs may not be able to serve the interest of the client and the public interest simultaneously. Lastly, Ms. McGeachy-Colby encouraged the Task Force to follow the developments in the EU so that the proposals do not contradict jurisdictions requirements. Prof. Poll acknowledged the concern about policing the system and agreed that PAs are not the enforcement authority. He also indicated that there is a need to understand the adoptability of the provisions and that this will be an ongoing discussion.
- Ms. Blomme congratulated the Task Force on the project's progress, noting the Task Force's efforts to take into account the feedback from the roundtables in drafting the provisions. She noted that the current proposals have not gone as far as regulations in some jurisdictions but acknowledged that it is not easy to strike a balanced approach. However, she added that for other jurisdictions, this could be a big leap forward. She encouraged the Task Force to consider whether stricter prohibitions would be warranted in certain areas. Prof. Poll acknowledged that the EU may go further in regulating tax advisors. He agreed that the challenge is to strike an appropriate balance. He also agreed that there is a tension between the client's interest and the public interest but that the PA must exercise appropriate professional judgment when providing the TP advice.

INTENT OF LEGISLATION

- Ms. Meng commended the Task Force on drafting principles-based provisions that can be applied globally. She agreed that it is important to consider the economic purpose and substance of the TP arrangement. She sought clarification from the Task Force on whether the description of TP services excludes artificial or contrived transactions.
- Mr. Yurdakul shared his observation that the interpretation of the intent of the tax legislation can be subjective. He sought clarification on how the current proposals would reflect the objectives and goals of the tax laws and regulations.

Prof. Poll noted that it is important to understand the intent of the tax legislation. He indicated that there were some cases in Germany in which the tax advisers tried to circumvent the legislature's intent but which the courts subsequently disallowed. He explained that the Task Force believes the Code can work with different national legal regimes. He clarified that as a global standard-setter, the IESBA will not put requirements in place that interfere with local jurisdictional requirements.

ESTABLISHING A CREDIBLE BASIS

- Ms. Landell-Mills shared that PAs are working first and foremost for the client. Accordingly, she was of the view that it is improbable that the client's interest will be aligned with the public interest. She added that auditors should not be providing TP advice but should instead draw attention to TP arrangements that are aggressive in nature.
- Ms. Gamboa noted that the proposals around the factors and examples to establish a credible basis are helpful. She commended the Task Force on the principles-based approach taken.
- Mr. Hansen shared his observation that establishing a credible basis conveys the notion of dealing with probabilities. He added that the paragraph which speaks about PAs taking action to establish a credible basis seems to imply that it is the responsibility of the PA to establish the credible basis rather than the responsibility of the employing organization or client. He believes that the PA's responsibility should be to assess the reasonableness of the employing organization's or client's assessment and reach a conclusion. If the PA cannot conclude on the reasonableness of the employing organization's or the client's assessment, the PA should not proceed with advising the employing organization or client on the particular TP arrangement.

Prof. Poll responded that the Task Force is aware that the PA's advice to the employer organization or the client might differ based on the circumstances presented. He indicated that the Task Force would consider the matter further.

GRAY ZONE

- Mr. Ishiwata noted that the proposed guidance on the factors to consider in determining whether the PA is in the "gray zone" is helpful. He suggested that the Task Force consider providing examples to illustrate different circumstances in the gray zone, such as whether related parties are involved and whether there is appropriate documentation.

PIOB OBSERVER'S REMARKS

Mr. Sullivan commented that he was impressed by the progress the Task Force had made in a short time on a difficult and complex topic. He pointed out that the PIOB supports the initiative and welcomes the excellent direction taken. He suggested that the Task Force explore enhancing the guidance addressing the need for PAs to exercise professional judgment and transparency with management and those charged with governance and, as appropriate, with the relevant authorities. He also noted that documentation is encouraged though not required. He suggested that the Task Force consider having a requirement on documentation. Lastly, Mr. Sullivan encouraged the Task Force to seek feedback from regulators, in particular tax authorities, when the Exposure Draft is made available for public consultation.

WAY FORWARD

Prof. Poll thanked the Representatives for their valuable input and informed the CAG that the IESBA will consider the CAG's feedback at its September 2022 meeting. The Task Force aims to present the final read of the Exposure Draft at the December 2022 IESBA meeting for the Board's consideration and approval.

C. Engagement Team – Group Audits Independence

Ms. Lee, Chair of the Engagement Team – Group Audits Independence (ET-GA) Task Force, presented an analysis of respondents' comments to the ET-GA [Exposure Draft \(ED\)](#). She then asked

Representatives to provide input to the Task Force's responses to the significant comments received on exposure and the proposed revisions to the proposals in the ED.

DEFINITIONS

CAG Representatives generally supported the Task Force's views and proposals regarding the revised definitions of "engagement team" and "audit team." Among other matters, the following were raised:

- Mr. Yurdakul suggested that the proposed revisions to Section 400 of the Code also include the definition of audit team, not only the definition of engagement team. Ms. Lee clarified that the Code already includes the definition of audit team in the Glossary. She explained that the proposed application material in Section 400, in conjunction with the definitions in the Glossary, aims to provide guidance as to the determination of who is included in an engagement team and an audit team in the context of audit, review, and group audit engagements.
- Ms. Landell-Mills asked how PAs could determine if an individual – especially from a component auditor firm – can directly influence the outcome of the group audit engagement and, therefore, be part of the audit team. Ms. Manabat suggested that the IESBA provide more clarity regarding the term "direct influence." Ms. Lee responded that whether an individual can directly influence the outcome of the group audit depends on the specific facts and circumstances. For example, she raised the situation where a group audit client is a holding company and one of its components carries out all the group's operations. She explained that in that case, the individual who can influence the outcome of the component audit might also have the ability to directly influence the outcome of the group audit.
- Ms. Meng suggested that the IESBA consider addressing the independence of external experts too. Ms. Lee responded that the IESBA's [Strategy Survey 2022](#) already indicated that the IESBA would consider this topic as part of developing its Strategy and Work Plan 2024-2027.
- Ms. Stokhof asked whether the reference to internal auditors in the definition of engagement team meant that these are individuals seconded to the team. Ms. Lee explained that in line with ISA 220 (Revised),² internal auditors are excluded from the engagement team. She clarified that internal auditors might provide some direct assistance on the engagement, but the engagement team needs to take full responsibility for the audit work performed.

INDEPENDENCE CONSIDERATIONS IN A GROUP AUDIT

Ms. Lee presented the Task Force's proposals regarding the independence considerations applicable to firms and individuals participating in a group audit. She asked Representatives for their views regarding the options³ presented in relation to independence considerations applicable to individuals from a component auditor firm outside the group auditor firm's network.

Representatives supported the Task Force's proposals regarding independence considerations for component auditor firms outside the group auditor firm's network.

In relation to the independence considerations for individuals from a component auditor firm outside the group auditor firm's network, the following were raised:

² International Standard on Auditing (ISA) 220, *Quality Management for an Audit of Financial Statements*

³ For Options 1 to 3, please refer to pages 18-19 of [Agenda Item 5-A](#) of the September 2022 IESBA meeting.

- Ms. Blomme supported the Task Force's preferred approach of Option 3, acknowledging the concerns SMPs raised in their responses to the ED regarding proportionality and undue burden. Ms. McGeachy-Colby and Mr. Cela agreed with Ms. Blomme and supported Option 3. Ms. McGeachy-Colby added that she also had concerns regarding the proposal in the ED requiring an SMP outside the group auditor firm's network auditing a non-PIE component to apply the PIE independence provisions if the group audit client is a PIE. She was of the view that the provisions applicable to a PIE audit client should be applicable only if the SMP performed significant audit procedures.
- Mr. Hansen supported Option 1, which he felt would be more in line with the SEC's approach regarding affiliates. He believed Option 3 could be a potential way forward in the case of non-listed group audit clients. Ms. Lee explained that based on the ED proposals, in the case of listed entities, the component auditor firm should monitor independence with respect to every related entity in the group. She noted that the component auditor firm outside of the group auditor firm's network would have no access to information about the entire "family tree" of the group. She highlighted that although the communication by the group auditor firm to the component auditor firms is crucial in this regard, in a large group scenario, the changes to the group's structure on a regular basis make the communication and monitoring burdensome. She clarified that the Task Force proposed that the Code require the component auditor firms outside the group auditor firm's network to apply the "reason to believe" principle based on the conceptual framework instead of actively monitoring personal independence with respect to all entities in the group.
- Mr. Greene was of the view that the Task Force' proposal could be seen as imposing a higher level of responsibility for independence for individuals at the group level than individuals in component auditor firms outside the group auditor firm's network. Ms. Landell-Mills agreed with Mr. Green's comment, especially in a listed group audit context. She argued that component auditor firms could face the same pressures and threats to independence. She felt that the challenge of access to information is not a sufficient rationale for setting a "lower level" of independence. Mr. Yurdakul shared Mr. Greene's and Ms. Landell-Mills' concerns. He believed that group audit team members from component auditor firms within or outside the group auditor firm's network should be subject to the same independence requirements.

Apart from the practical challenges in relation to accessing information about entities in the group outside the chain of control of the component audit client, Ms. Lee also highlighted the likelihood of threats to independence with respect to such entities. She argued that if a component auditor firm provides a NAS to a controlled entity of the group audit client outside the chain of control of the component audit client, it is unlikely that a self-review threat would be present unless that controlled entity has related party transactions with the component audit client. Mr. Siong clarified that the Task Force aimed to address the concerns raised regarding the issue of proportionality in terms of the systems that would be necessary at the component auditor firm outside the group auditor firm's network to monitor personal independence across all entities in the group. He emphasized that the Task Force's proposals would still require component auditor firms to apply the "reason to believe" principle and the conceptual framework when considering threats to independence with respect to any other related entities and components in the group outside the chain of control of the component audit client.

- Mr. Dalkin noted that group structures can include really complex relationships. He believed that the proposals need to address the issue of complexity too. Mr. Siong raised that a group could have hundreds of components not just in one jurisdiction but across multiple jurisdictions. He noted that the complexity becomes a practical issue when asking SMPs to put systems in place for monitoring

compliance. Ms. Lee explained that the Task Force intended to find a balanced approach between the likelihood of threats to independence created with respect to certain entities within the group and the complexity of the relationships in the group structure.

- Mr. Sullivan noted that the concept of independence is fundamental to the performance of an effective audit, irrespective of whether it is complex, burdensome, or costly. He added that while the cost-benefit analysis is meaningful, the benefits would need to be carefully balanced against the costs. Regarding the practical challenges related to accessing information about the group's structure, he highlighted that it is the group auditor firm's responsibility to ensure that the entire engagement team is aware of the entities within the group worldwide. Ms. Lee agreed with Mr. Sullivan's point regarding the importance of communication between the group auditor firm and the component auditor firm. She pointed out that the Task Force proposed new requirements and guidance to provide greater clarity about the matters to be communicated from the group auditor firm to the component auditor firm, and to emphasize that that the communication should take place on a timely basis.
- Ms. Vanich noted that the PCAOB has some statistics about how many engagement teams are involved in audits within the scope of the PCAOB's remit. She highlighted that the largest audit has 67 different firms and that average number was between 5 and 10 firms. She explained that based on the PCAOB rules, the lead auditor is required to obtain a written affirmation that the other auditors understand and will comply with the independence requirements. She added that the PCAOB has not received comments about the costs and practical challenges arising from the application of the PCAOB's independence rules.

PERIOD DURING WHICH INDEPENDENCE IS REQUIRED

Mr. Sullivan questioned whether the period during which the component auditor firm's independence is required was an issue that Section 405 needs to address at all, especially if the component auditor firm's engagement is recurring. He added that based on his experience, component auditor firms often have the responsibility to update their work before the issuance of the audit opinion on the group financial statements. Accordingly, they would need to be independent until that point. Ms. Landell-Mills shared Mr. Sullivan's views. Ms. Lee explained that the Task Force intended to address the independence considerations in the context of a non-recurring engagement when the component auditor firm carries out a specific audit procedure on a non-recurring basis, and there is not even a need for an update of the report on its work done. She clarified that the proposal was more of an exception that provided flexibility for the group audit engagement partner to determine the period during which the component auditor firm's independence is required.

WAY FORWARD

Ms. Lee thanked the Representatives for their input and informed the CAG that the IESBA will consider the CAG's feedback at its September 2022 meeting. The final proposals are scheduled for IESBA consideration with a view to approval at the IESBA's December 2022 meeting.

D. Technology Working Group Phase 2 Report

Mr. Brian Friedrich, Chair of the Technology Working Group, introduced the session focused on the final draft of the Working Group's Phase 2 Fact-finding Report on the developments in technology and their potential impact on PAs from an ethics perspective (Phase 2 Report).

Mr. Friedrich provided a detailed walkthrough of the Working Group's activities and processes, including how the Working Group analyzed and evaluated its findings against the Code, which informed the development of the Phase 2 Report. He also walked through each section of the report. The report, among other matters, provides an overview of the technology landscape, includes a discussion of key themes observed, and provides insights and recommendations for the IESBA.

CAG Representatives were asked for their input and reactions before issuance of the Phase 2 Report, including views on the recommendations and suggested next steps for IESBA. No input or questions were received. However, Mr. Friedrich suggested that Representatives could forward any comments to the Working Group following the meeting.

Mr. Friedrich thanked the CAG Representatives for the opportunity to share the draft Phase 2 Report.

WAY FORWARD

Taking into account the IESBA's consideration of the final draft of the Phase 2 Report at the September 12-16, 2022 IESBA meeting, the Working Group will aim to finalize the Report for issuance by the end of November 2022.

E. Technology Project

Mr. Huesken, Chair of the Technology Task Force, introduced the topic by providing a brief recap and status update of the Technology Project. In particular, he pointed out that the finalization of the Technology [Exposure Draft \(ED\)](#) had taken into account the input from CAG Representatives at the [September 2021](#) CAG meeting, and that the related report-back was provided to the CAG in [March 2022](#).

Ms. Leung provided a brief overview of the respondents to the ED. She informed CAG Representatives that overall, respondents across stakeholder groups and regions had expressed clear support for the proposed technology-related revisions to the Code. In support of the proposals, respondents had provided many suggestions to refine the proposed revisions or highlighted areas where they felt clarification was warranted. Mr. Huesken highlighted six significant issues raised on exposure and presented the Task Force's responses and analyses. He also noted that the draft recommendations and findings arising from the Technology Working Group's fact-finding work have been considered, as relevant and appropriate, in developing the Task Force's responses.

CAG Representatives were asked to consider and react to the significant issues and Task Force responses highlighted in the presentation, and to provide any input that might be relevant to the IESBA in finalizing the technology-related revisions to the Code.

Representatives overall did not have any concerns with the direction of the Task Force's responses and draft revisions to the ED text in relation to (i) Subsection 113 *Professional Skills*; (ii) Subsection 114 *Confidentiality*; (iii) Section 120 *The Conceptual Framework* relating to complex circumstances; (iv) Parts 2 and 3 of the Code relating to the use of technology; (v) Section 520 *Business Relationships*; and (vi) Subsection 606 *IT Systems Services* in relation to hosting.

Among other matters, the following were raised:

CONFIDENTIALITY

- Mr. Hansen emphasized the need to make clear that the revised confidentiality provisions do not interfere the Code's existing disclosure provisions on responding to non-compliance with laws and regulations (NOCLAR). He also pointed out that from his observation, complete anonymization of

data might be difficult. He also noted the existence of jurisdictional guidance on the topic of using confidential information.

Mr. Huesken responded that the NOCLAR provisions would continue to allow for disclosure pursuant to the right given under Subsection 114 even after that Subsection has been revised by the Technology Project, subject to relevant laws and regulations, and provided that NOCLAR is of such a nature or scale as to meet the public interest test. He also noted that the Task Force had considered jurisdictional guidance when developing the draft revisions.

PART 2 OF THE CODE

- Mr. Ishiwata noted that the draft revisions are responsive to the public interest and suggested that further non-authoritative guidance be developed for specific technologies. He observed that the draft revisions pertaining to Part 2 of the Code might be challenging for small- and medium-sized enterprises (SMEs) and SMPs to implement given their more limited resources. He therefore noted that the key would be to undertake outreach to them.

In response, Mr. Huesken highlighted that outreach with the IFAC SMPAG was undertaken in developing the ED, and that the SMPAG had also submitted a comment letter to the ED. Therefore, their perspectives had been considered in developing the draft revisions.

Mr. Huesken also observed that the suggestion for developing non-authoritative guidance is a consistent message received from stakeholders, which is not specific to technology. He noted that developing such guidance is resource-intensive and, therefore, this will need to be considered against other priorities. In the meantime, he pointed to non-authoritative guidance which has already been developed by the Technology Working Group and is published on the IESBA's [Technology Focus Page](#).

INDEPENDENCE

- Mr. Dalkin questioned if the draft revisions cover scenarios where the auditor develops a tool, e.g., fraud detection software, and the audit client wants to use such tool for its own internal use to identify fraud.

In response, Mr. Huesken noted that the scenario illustrated would constitute a self-review threat as the tool would form part of the internal controls over financial reporting and is covered by the revised NAS provisions. As a result, for auditors of public interest entities (PIEs), this would be prohibited.

- Mr. Hansen expressed support for the draft revisions in relation to the examples of IT systems services that result in the assumption of management responsibility.

PIOB OBSERVERS' REMARKS

Mr. Sullivan expressed support for the draft revisions. In particular, he commented that they clarify and strengthen the Code, especially in relation to technology-related NAS. He also expressed support for the draft revisions in Subsection 114 concerning confidentiality, noting his preference for client consent to be in writing.

Finally, he commended the Task Force on the continuing coordination with the Technology Working Group.

WAY FORWARD

Ms. Dias thanked the CAG Representatives for their input and highlighted the importance of the Code remaining fit for purpose given evolving technological developments. In this regard, she pointed out the IESBA's establishment of the Technology Experts Group in Q1 2022 to inform the Technology Working Group of developments in technology and related ethical challenges.

Mr. Huesken also thanked the CAG Representatives for their input and informed the CAG that the IESBA will consider the CAG's feedback at its December 2022 meeting.

F. Sustainability

Mr. Babington, Chair of the Sustainability Working Group (SWG), briefed the CAG on the progress of the IESBA's sustainability initiative. As part of his presentation, Mr. Babington briefed the CAG on the key outcomes of the IESBA's September 2022 meeting.

CAG Representatives generally supported the IESBA's sustainability workstream. Among other matters, the following were raised:

- Mr. Hansen questioned whether the responsibility for sustainability assurance would be shared between an audit engagement partner and a key sustainability partner, or whether it would rest with a key sustainability partner when there is an integration of financial statements and sustainability information. Mr. Babington responded that it would depend on jurisdictions and on the direction of travel over the next few years. He added that while sustainability-related work requires different skills and expertise, it might be that the audit engagement partner and the key sustainability partner could be the same person if that person has the appropriate skills and capabilities to be able to deliver the work. He indicated that the SWG will continue to engage with stakeholders, including regulatory authorities, to inform the sustainability-related revisions to the Code.
- Mr. Dalkin pointed out that there has been a significant increase in interest for independent public auditors (IPAs) to develop strong consulting arms to do sustainability reporting-related work. He indicated that the prevailing view in the US is that the client can oversee an IPA who provides NAS to an audit client. However, he highlighted that there are more risks if the audit firm is also providing sustainability consulting services. Accordingly, he wondered whether management would be able to oversee such consulting services. He therefore questioned whether there is a need for additional guardrails in the Code in this regard. Mr. Babington responded that the SWG was carrying out a gap analysis on the extant Code and that it would investigate the matter further and coordinate with the IAASB.
- Mr. Greene wondered how the Code would be enforced for individuals and firms that are not PAs (non-PAs). Mr. Babington responded that the IESBA is in discussions with regulators because they are the key to requiring non-PAs to apply a consistent framework of ethics, including independence, standards. He also pointed out that if those charged with governance start to require non-PAs to comply with the Code and the ISAs for sustainability assurance engagements, that could be an attractive solution. Ms. Dias noted that the matter of enforcement is outside the IESBA's remit. She added that the question of the applicability of the IESBA's standards to non-PAs is even more relevant now than a few months ago as some major jurisdictions, such as the EU, have already decided to open their sustainability assurance markets to all providers.
- Ms. Blomme expressed support for the project. She saw need for standards for both professional accountants in business (PAIBs) and PAPPs as both sustainability reporting and assurance are

important. She also pointed out that there is an expectation for sustainability assurance providers who are non-PAs to use the IAASB's forthcoming sustainability assurance standard. She highlighted that it is that standard that could impose a requirement for these non-PAs to comply with the IESBA Code or other relevant ethical requirements, including independence requirements, that are at least as stringent as the IESBA Code. She pointed out that the IESBA Code already contains a lot of requirements and guidance that should be applicable to sustainability assurance engagements. Mr. Babington agreed and added that the SWG is working very closely with the IAASB to ensure that there is alignment between the work of the two Boards.

- Mr. Ishiwata expressed support for the IESBA's commitment to progressing a sustainability project. Regarding IOSCO's mid-September 2022 public statement expressing support for the work of the IESBA and IAASB in developing profession-agnostic standards for sustainability assurance, he noted that IOSCO expects to continue engaging and collaborating with the IESBA and other stakeholders, having regard to the need to balance timeliness and due process. He also commented that it is crucial to have diversity in the Task Forces that will take the sustainability projects forward, both in terms of subject matter expertise and geography. He reiterated IOSCO's message about the importance of developing profession-agnostic standards that would apply to PAs and non-PAs equally in relation to sustainability assurance. Mr. Babington acknowledged the concern about diversity and resourcing for the anticipated Sustainability Task Forces. He added that it would be also important for the IESBA to speak with one voice on the issues.
- Ms. Peters pointed out that from an investor perspective, it would need to be for a regulator to decide who should be subject to the same ethics, including independence, standards for sustainability assurance. She suggested that there might be a need for case studies as to how assurance might be delivered with respect to the application of the standards being developed by the International Sustainability Standards Board (ISSB). She added that over time, the range of sustainability-related subject matters that will require assurance will increase. Accordingly, the sustainability assurance providers will need to establish whether the assertions in previous sustainability reports are materializing. She was also concerned about the linkage between the financial statements and the sustainability reports, which she felt would be a real challenge in terms of assurance. She reiterated that case studies might help in a tangible way in this regard. Mr. Babington acknowledged that case studies could be useful. He noted that the IAASB standards have an advantage in that they deal with both financial and non-financial information whereas the Code deals with behavior. He observed that the sustainability area will be more challenging because of the prevalence of forward-looking information. He added that there are a number of steps ahead to travel.
- Ms. Manabat commented that sustainability reporting is different from financial reporting in that the former applies an "Environmental, Social and Governance" (ESG) lens to the information. She noted that a major consideration is that sustainability reporting often involves an enormous amount of data and therefore technology is involved. She cautioned that from a capital markets perspective, there are questions as to the nature of sustainability reports that will meet market expectations. Accordingly, she advised the IESBA to be very careful and exercise due diligence in progressing work in this area. She also wondered about the implementation and enforcement of the standards by sustainability assurance providers who are not PAs.
- Ms. Meng expressed support for the IESBA Staff publication on Greenwashing. She suggested that IESBA staff consider merging the first and third questions as they are related.

- Ms. Peters commented that integrated reporting will be needed. She noted that financial statements should be confirmatory of sustainability information as the latter is very forward-looking. She added that sustainability information should be clearly and easily accessible and connected to the financial statements. She also highlighted the need to clearly demonstrate that sustainability information impacts enterprise value. Mr. Hansen noted that the challenge would be how to measure that impact. Mr. Greene noted that the key would be to have internal controls over sustainability reporting, similar to internal controls over financial reporting. Mr. Babington agreed that internal controls would be important. However, he noted that in the sustainability area, controls are less mature and, therefore, there will be questions as to whether they will be reliable.
- Mr. Stokhof expressed support for the initiative. He commented that an OECD analysis has shown that based on a sample of 3,000 listed corporations in 2021 representing half of the global market capitalization, 91% of the companies had commissioned assurance on their sustainability reports. He added that in his view a standard that “would be too heavy,” or that would not include transition measures, would be more likely to fail. Accordingly, he suggested that the IESBA be very thoughtful about the scope and scalability of the standards it will develop.

PIOB OBSERVERS' REMARKS

Mr. Sullivan expressed support for the IESBA to take a measured approach. However, he highlighted that timeliness would be key. He indicated that the PIOB is looking forward to reviewing the project plan at the IESBA's November-December 2022 meeting. He also agreed that it would be in the public interest to make the Code available for use by non-PAs who perform sustainability assurance engagements.

G. Strategy Work Plan 2024-2027

Ms. Dias introduced the session by emphasizing the importance of the current development phase of the IESBA's Strategy and Work Plan 2024-2027 (SWP). She stressed that the IESBA is continually seeking input from stakeholders about the Board's future strategic priorities and that it would welcome any insights and input from the CAG.

Mr. Hansen queried why the strategy cycle has been changed to four years instead of the previous 5 years. In response, Messrs. Siong and Kwan explained that the four-year cycle aligns with that of the International Auditing and Assurance Standards Board's (IAASB) next strategy period and that this was agreed with the IAASB to facilitate increased strategic coordination between the two Boards. They indicated that the four-year cycle will also enable the IESBA to be more responsive to the rapidly changing business and work environment for PAs. Ms. Dias also added that the IESBA will continue to be alert to the context in which it operates, making changes to its strategic work plan as necessary in order to address new issues responsively.

With regards to the breakdown of respondents, Mr. Thompson noted that the number of responses seemed relatively lower than in previous strategy surveys. He suggested that it would be helpful to have more feedback from the investor groups. In response, Mr. Kwan clarified that some respondents, such as IOSCO, represent multiple constituents. Ms. Dias and Mr. Siong also pointed out that as the investor community is a much more fragmented group, it is difficult to identify a collective view on key issues. They indicated that the IESBA has been proactive in conducting outreach to individual investor organizations. Mr. Siong further noted that recent feedback from outreach indicated that investors generally tend to trust audited financial statements. Many of them also generally do not feel qualified to provide feedback on technical accounting and audit-related issues.

PROPOSED STRATEGIC FOCUS

Mr. Kwan provided an overview of the key feedback received on the [April 2022 Strategy Survey](#) with respect to the four proposed strategic focus areas in the survey:

- Enhancing ethics and independence standards for sustainability reporting and assurance
- Raising the ethical bar for professional accountants in business
- Strengthening independence standards for audit engagements
- Promoting timely adoption and effective implementation of the Code

Mr. Kwan noted that at its meeting earlier in September, the Board was supportive of the proposed strategic focus areas, taking into account the feedback received from respondents to the Strategy Survey.

With regards to the proposed strategic focus on raising the ethical bar for PAIBs:

- Mss. Meng and Manabat expressed support for focusing on the ethical behavior of PAIBs, noting the importance of PAIB roles such as chief financial officers (CFOs) and the financial failure of high-profile companies in recent times. Ms. Meng highlighted the importance of instilling the right ethical culture and mindset within organizations and hence the need to raise the bar for PAIBs. Mr. Hansen added that an issue is that CFOs do not have to belong to a professional accountancy organization (PAO). He noted that a root cause of many corporate scandals has been the role played in those scandals by CFOs. Accordingly, he also supported the strategic focus on PAIBs.
- Mr. Greene supported having a high ethical bar for PAIBs. However, he queried how compliance with the Code can be effectively enforced on PAIBs. Mr. Hansen further pointed out that CFOs are not under the same level of regulatory supervision as auditors. In response, Ms. Lee explained that the responsibility for enforcement generally rests with the professional accountancy organizations (PAOs) through mechanisms to address complaints and take disciplinary actions. Mss. Dias and Lee further pointed out that the Code should continue to have a high ethical bar for PAIBs because of their “first line of defense” role in the financial and non-financial reporting chain. Mr. Siong noted that the IESBA will continue to reinforce the important message that PAIBs need a high standard of ethical behavior when the IESBA engages with PAOs, including IFAC.
- Ms. Blomme wondered whether the phrase “raising the bar” might be misconstrued as she did not believe the ethical provisions for PAIBs in the extant Code are broken. She also suggested a review of the implementation of the NOCLAR provisions in the Code and the role of PAIBs in corporate governance and corporate culture as deserving strategic consideration. In response, Ms. Dias clarified that the phrase did not mean that Part 2 of the Code is broken but that there are opportunities for the IESBA to further enhance the Code to strengthen expectations of ethical behavior for PAIBs. Messrs. Siong and Kwan also explained that under the Sustainability work stream, the Board will already look to enhancing Part 2 to address the ethical expectations for PAIBs in sustainability reporting. They added that the Planning Committee will also further examine the role of CFOs.

With regards to the proposed strategic focus on adoption and implementation (A&I):

- Mr. Thompson wondered whether there are any useful learnings that IESBA staff might take from the IAASB’s Complexity, Understandability, Scalability and Proportionality (CUSP) work stream. In response, Mr. Siong indicated that the IESBA had recently undertaken a 5-year project to restructure the Code to make it more user-friendly and understandable. Mr. Kwan also noted that the IESBA

will conduct a post-implementation review of the restructured Code as part of the next strategy period.

- Ms. Blomme expressed support for a focus on A&I. She pointed out that it takes time for adoption in some jurisdictions given the rate of change and the time it takes to understand the revisions to the Code such as NAS and Fees. Accordingly, she felt there was a trade-off between focusing on what is most important from a strategic perspective vs. focusing on implementation.

LIST OF POTENTIAL PROJECTS AND WORK STREAMS

Mr. Kwan provided a summary of the prioritization of potential projects listed in the Strategy Survey based on the overall scores from respondents as well as by stakeholder groups. He noted that the Board was generally supportive of the IESBA Planning Committee's recommendation to use the prioritization suggested by regulatory respondents and national standard setters (NSS) as a starting point when developing the draft consultation paper.

Mr. Hansen supported the potential project on reviewing the use of the term "audit client" as he believes the client is really the shareholders and not the entity or its management.

PIOB OBSERVER'S REMARKS

Mr. Sullivan noted the importance of the continued strategic focus on strengthening independence standards for audit engagements as well as the potential project on the independence of external experts. He also highlighted his expectation that the consultation paper will have a clear focus on the public interest and the transition to the Monitoring Group reform of the IESBA's and the IAASB's structure and governance arrangements.

H. Closing Remarks

Mr. Hansen thanked the CAG participants for their contributions and closed the meeting.