

Agenda Item 1-C (Updated)

**Draft Minutes of the 86th Meeting of the
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS
Held on March 18-20, 2024 in New York, USA**

Voting Members

Present: Gabriela Figueiredo Dias (Chair)
Laurie Endsley (Vice Chair)
Saadiya Adam
Mark Babington
Vania Borgerth
Richard Huesken
Tomoyo Imura
Sung-Nam Kim (Days 1-2)
Héctor Lehuedé
Rania Uwaydah Mardini
Christelle Martin
Andrew Mintzer (Days 1 & 3)
Paul Muthaura
Luigi Nisoli
Amarjeet Singh
Channa Wijesinghe
David Wray

Technical Advisors

Keith Billing (Mr. Babington)
David Clark (Mr. Huesken)
Ellen Gorla (Mr. Mintzer)
Marta Kramerius (Mr. Nisoli)
Ki-Tae Park (Mr. Kim)
Andrew Pinkney (Ms. Endsley)
Bruno Tesnière (Ms. Martin)
Kristen Wydell (Mr. Wijesinghe)
Masahiro Yamada (Mss. Borgerth and Imura)

Apology: Charles Luo (Mr. Muthaura)

Non-Voting Observers

Present: Yohei Ito, Japanese Financial Services Agency (FSA)

Public Interest Oversight Board (PIOB) Observers

Present: Robert Buchanan and Dave Sullivan

IESBA and IFAC Staff

Present: James Gunn (Managing Director, Professional Standards), Ken Siong (Program and Senior Director), Linda Biek (Director) (Days 1-2), 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 observers to the first meeting of 2024. She extended a special welcome to former IESBA member Ms. Liesbet Haustermans and former technical advisor Ms. Denise Canavan, both of whom were assisting Mr. Nisoli and observing the meeting, virtually and in person, respectively. ~~She also welcomed Ms. Wenjing Shi who was assisting Ms. Yaoshu Wu in person.~~

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Ms. Dias then updated the Board on the activities of the Planning Committee (PC) during the quarter, including updates on the various workstreams as well as planning for the inaugural IESBA-IAASB Stakeholder Advisory Council (SAC) agenda; consideration of potential collaboration with the Observatoire de la Finance in relation to the Global Ethics & Trust in Finance Prize; the planning of the September and December 2024 board meetings, and upcoming outreach activities.

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APPROVAL OF MINUTES

The IESBA approved the minutes of the ~~March-December 2024-2023~~ public session as amended.

2. Firm Culture & Governance

Mr. Wijesinghe, Firm Culture and Governance Working Group (FCG WG) Chair, commenced the session with a high-level overview of the new IESBA work stream on firm culture and governance as approved by the IESBA in December 2023 as a strategic priority for the new strategy period (2024-2027). Messrs. Wijesinghe and Kwan reminded the IESBA that the work stream's focus is on the whole firm and not only the audit business line.

EXTERNAL PRESENTATIONS

The IESBA considered four external presentations on the topic of firm culture and governance.

Mr. Imran Vanker, Director of Standards, Independent Regulatory Board for Auditors (IRBA), and Chair of the Independent Audit Advisory Committee of the United Nations (IAAC)

Mr. Vanker provided an overview of some recent high-profile cases of ethical failures within firms for which investigations had been completed. He noted that these and other cases in South Africa can be a rich source of information for the WG, as similar cases could also happen in other jurisdictions. These cases (relating to audits, provision of non-assurance services, firm ownership and examination cheating) were high-profile for a number of reasons, such as exposure by media, involvement of household brands, and large financial losses. Mr. Vanker noted that firms have taken drastic actions in response to these cases, such as instituting an independent chair and introducing independent non-executive members, setting up public interest, social and ethics committees, and developing transparency reporting.

Mr. Vanker pointed out that the firms' responses highlighted that developments in corporate governance are influencing firm governance and that these actions, whilst costly, aim to restore public confidence in the firms as well as respond to demands from their clients for more prompt actions. He observed that many of

these firm actions aim to address the broader issue of firm culture and governance. Mr. Vanker also noted that the culture and governance-related material in ISQM 1¹ would be a helpful starting point for the IESBA.

Among other matters, IESBA participants provided the following comments:

- The stand-back test for professional accountants (PAs) may be useful in terms of consideration of the potential consequences of their actions.
- Firms may face a practical dilemma in terms of choosing between the speed in providing a professional service and taking the time needed to undertake proper reflections from an ethical perspective.
- In response to a query raised, Mr. Vanker noted that the introduction of the audit firm mandatory rotation in South Africa has brought rigor to the audit tendering process. In addition, IRBA also uses a number of transparency tools, including an annual report on audit quality indicators which it urges entities to use in the selection of auditors.
- Whether there are other ways in which the Board might help drive ethical behavior within firms because more rules or standards alone may not change culture.
- A need to ensure that the solutions developed are balanced and not driven by extreme examples of non-compliance with the Code, such as those high-profile cases cited in Mr. Vanker's presentation.

Ms. Claire Lindridge (Director of Audit Market Supervision) and Ms. Helen Gale (Head of Culture & Conduct, Audit Market Supervision) from the United Kingdom Financial Reporting Council (UK FRC)

Mss. Lindridge and Gale provided an overview of the UK FRC's objectives and approach to its work on firm culture and governance. Ms. Lindridge provided an overview of the UK FRC's governance work stream, including its background, objectives and key features of the revised [FRC Audit Firm Governance Code 2022](#)~~FRC Code 2022~~. She outlined the FRC Code's objectives, key principles and the role of independent non-executives (INEs). She also provided an overview of UK FRC's Principles of Operational Separation released in 2021. Among other matters, Ms. Lindridge also made the following comments and observations:

- The FRC Code is applicable to the whole firm and not only the audit business line.
- The heart of the FRC Code is INEs, which has a strong public interest element. The INEs are critical in bringing external perspectives and driving the culture of firms. Firms have found the INEs to be a valuable element of their governance framework.
- The principles-based nature of the FRC Code provides the flexibility to allow firms to implement different structures, as one size does not fit all.
- The network integration at firms has resulted in some decision-making power being allocated to the regional or global bodies, which are outside the jurisdictional powers of the local regulators and influence of the INEs.
- Ringfencing the audit practice, including using separate governance structures and separate audit profit and loss account, brings greater focus to, and oversight of, audit quality.

¹ ISQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Ms. Gale provided an overview of the UK FRC's culture and conduct work stream, noting that a key driver is to address poor audit quality and unethical behavior. The UK FRC uses a predict-and-prevent approach that focuses on proactively improving firm culture to influence behaviors, as an individual's behavior and mindset are strongly affected by the environment and culture within which they work.

Ms. Gale explained that by first understanding its regulatory framework, which includes ISQM 1, the FRC Code as well as the IESBA Code, the UK FRC developed its culture assessment framework that contains six drivers of behaviors that drive organizational culture: leadership, governance, reward and recognition, people management, communication and working environment. Firms are also expected to carry out continuous assessments as part of this culture assessment framework. Ms. Gale also shared the UK FRC's key outputs from this work stream over the last few years such as an annual assessment of audit firm culture as well as one more broadly on whole-of-firm ethical culture.

Among other matters, Ms. Gale highlighted various challenges and learnings on this work stream:

- It is important to raise awareness of the importance of culture, establish a clear purpose for work on culture, and to obtain buy-in from firms, which takes time to achieve.
- There are some regulatory limitations on how to address firm culture, with ISQM 1 focusing on audit practice and the IESBA Code focusing on individual responses. Ms. Gale suggested that it would be useful if the Code could place more expectations on firms to create an ethical culture in order to promote ethical behavior, such as through leadership and governance.
- When working with the firms, the UK FRC aims to promote a commitment mindset rather than a compliance or rules-based mindset.
- As it is difficult to assess culture, the UK FRC has developed its culture assessment framework to guide its supervision work on firm culture. Ms. Gale noted that there has been more concrete evidence of successful culture improvements in firms from many initiatives by firms.

Among other matters, Mss. Lindridge and Gale provided the following comments in response to queries raised by IESBA participants:

- On how to assess the effectiveness of a firm's speak-up culture, the UK FRC has developed a framework that looks at firms' processes on speak-up matters such as whistleblowing and general challenge within teams. The FRC has also considered survey results.
- Firms are encouraged to use a balanced scorecard to determine audit partners' remuneration as part of the UK FRC's Principles of Operational Separation.
- The current media headlines on ethical failures within firms have helped the UK FRC reach the wider firm on firm culture. It is also important to get buy-in from the most senior ~~staff~~ leadership.
- The voluntary compliance model of the FRC Code is now working well in the UK, starting with the largest 6 firms.
- In addition to the culture assessment framework, UK FRC staff also meet with firms separately, share best practices and use benchmarks to help firms deliver their culture initiatives and to move away from a rules-based mindset.
- The FRC Code works for both the biggest firms as well as smaller firms.

Prof. Karthik Ramanna (Professor of Business & Public Policy) from the Blavatnik School of Government, University of Oxford

Prof. Ramanna explained that there is particular interest in organizations building trust in an increasingly polarized society, a topic that is relevant to the audit profession in light of the trust issue it is facing today. He identified three primary sources of polarization affecting trust:

- Fear for the future, such as climate change and the rapidly developing technology landscape.
- A sense of a “raw deal” in terms of perceptions that the rule of the game in society has been rigged.
- Ideologies of “othering” in the sense that we are living in a world of “us against them.”

Prof. Ramanna observed that auditors have been criticized for not addressing the fear of the future and not doing enough to stop the raw deal from taking place. He also pointed out that there is a perceived lack of a culture of challenge within audit firms, which emphasizes the need for competence, character, and commitment in auditors. He observed that perceived deficiencies undermine trust. He outlined the importance of fostering a culture of challenge within audit firms through proper recruitment, shared beliefs, alignment of incentives, and processes that normalize disagreement. Additionally, he stressed the role of governance and leadership in shaping firm culture, and highlighted the passive role often played by non-executive directors.

Among other matters, Prof. Ramanna provided the following comments in response to queries raised by IESBA participants:

- As auditors hold themselves out with a special position of trust and an expectation of high standards and quality, when the service is not delivered to those expectations, the backlash is far greater.
- Parts of a firm other than the audit practice are generally aware of their role in providing trust because this position opens doors for business, but the challenge is how to resist the temptation to coin that trust.
- Whilst private equity can provide patient capital needed by a firm, there is the perception that private equity is in the business of asset stripping and tax avoidance, which is damaging for the profession.
- Whilst auditors receive significant training, the focus has become more on the application of rules and checklists and less on [the](#) deployment of human judgment.
- In order to promote whistleblowing, firms may need to normalize disagreement.

Mr. Jeremy Hirschhorn (Second Commissioner) and Ms. Rebecca Saint (Deputy Commissioner) from the Australian Taxation Office

Mr. Hirschhorn and Ms. Saint shared a number of key observations concerning firm culture and governance based on the Australian Taxation Office's (ATO) interactions with firms. Mr. Hirschhorn raised the concept of “systematically important firms” whereby, when a firm gets to a particular size, it fundamentally changes how it should think about itself, and it has industry- or economy-wide effects in the local jurisdiction. This means that public interest becomes much more important given the impact the firm can have.

Mr. Hirschhorn highlighted a number of key areas of conflicts or pressure faced by big firms:

- Conflict between tax and audit services. Auditor independence is particularly critical in relation to tax services. There is also conflict when a firm advises [the](#) government, particularly on how to change

the rules, which is when public interest must come to the fore. When providing services to [the](#) government, the true client may be the broader government or the public. At the heart of consulting is a tension between relevant experience and expertise and client-specific information.

- Different cultural perspectives and challenges in an international firm. If a firm is truly an international firm, it should adopt the highest standards. However, if it operates within a network of firms, there may be a challenge that the firm operates under the lower standards applicable to some of the network firms operating in particular jurisdictions, or there may be irreconcilable differences in standards.
- Challenges with incentives. Financial incentives and recognition are important but it is difficult to have a “balanced” scorecard-type incentive system. Often, the incentive structure is revenue-based when it comes to hire-and-fire decisions as well as promotion.
- Weighting between traditional and non-traditional businesses within a firm. Mr. Hirschhorn asked whether a critical mass of lateral hire partners, particularly in the non-traditional businesses, who are bringing in large revenues would change the mindset of the partner and indeed the firm. There is a risk that the audit business is isolated within the broader firm.
- Firm governance. Does the partnership structure break down when firms get to a certain size? For instance, how would a governance board work when the board relies on the votes of the partners that they are meant to manage?
- Effective consequences. Instead of proper internal and external signaling of the consequences, firms sometimes attempt to manage these matters internally and perhaps without sufficient transparency, not only externally but also internally.
- Rules-based approach. There is a tendency for big firms to become rules-based and lose sight of the ethical overlay. One challenge for the IESBA is how to ensure that firms take on a principles-based approach.

Among other matters, Mr. Hirschhorn and Ms. Saint provided the following comments in response to queries raised by IESBA participants:

- Whilst it is not a simple task to pinpoint whether the issue rests with regulators, standard-setters or firm management, each party has a role in helping firms to build their culture. There is at least a role for the IESBA to call out the challenges, even if it is not within its remit to prescribe the solutions.
- There have been discussions in Australia about whether, given their importance to the economy, the largest firms should be subject to the same level of public transparency as comparable corporates. There is also a fear that these biggest firms have become too corporate with their drive for profits.
- When there is a significant failure, it probably requires a few individuals or groups of individuals to do the wrong thing, but fundamentally they are operating within an incentive structure, which shapes what the acceptable behaviors are.
- The Big 4 in Australia have acknowledged that they are effectively public interest entities (PIEs). However, there is a case to suggest that the global firms should also be treated as PIEs.

WORKING GROUP UPDATES

Case Studies

Mr. Fleck, external consultant to the WG, provided an overview of a few high-profile cases that involve both firms and other organizations. These cases demonstrate the risks of an excessive focus on financial performance and reward in causing ethical failures, as well as the role of leadership in setting the culture of an organization. He also emphasized that not all audit or other professional service failures are caused by failure in organizational culture.

Among other matters, IESBA members raised the following comments or suggestions:

- It may be argued that ethical failures that lead to high-profile scandals will usually have some elements of cultural failure.
- The WG should also take into account framework and processes when considering the drivers of firm culture.
- It may be helpful to consider how the Code addresses individuals acting as a collective or group as a result of the culture of the firm.
- There seems to be a gap in knowledge in ethics standards between those in the audit arm and those in the consulting arm of a firm, as well as between PAs and those who are not.

Australian Parliamentary Inquiries

Mr. Wijesinghe provided an update on the two ongoing Australian Parliamentary inquiries² that relate to firm culture and governance, including the broad themes addressed by the inquiries, such as partnership structure, conflicts of interest, monitoring and enforcement, and lack of a robust ethics code for other consultants. He also highlighted the evidence given by the Accounting Professional & Ethical Standards Board (APESB) to these two inquiries, including the global reach of the IESBA Code as well as the IESBA's development of profession-agnostic standards. Among other matters, IESBA members also discussed matters relating to proposals by the APESB, such as enhanced transparency and accountability of large firms, establishment of an independent monitoring and enforcement body, and support mechanism for whistleblowing.

Mr. Wijesinghe also shared with the IESBA the key shortcomings from an independent review by Dr. Ziggy Switkowski, "[Review of Governance, Culture and Accountability at PwC Australia](#)" (the [Ziggy-Switkowski Report](#)), which was commissioned by PwC Australia in May 2023 as a result of the PwC tax scandal in Australia. These shortcomings, relating to the governance, culture and accountability at PwC Australia, include issues such as lack of independence within the ultimate governing body, excessive power conferred to the CEO, and a disproportionate focus on revenue growth.

Overview of Relevant Provisions in the Code

Mr. Kwan provided an overview of the key provisions in the IESBA Code relating to firm culture and governance. He pointed out that the extant provisions recognize the importance of organizational culture

² [Inquiry into ethics and professional accountability: structural challenges in the audit, assurance and consultancy industry](#) and the [Inquiry into the management assurance of integrity by consulting services](#)

and individual responsibility to set the right culture, identify some drivers of ethical culture, including the role of leaders, and acknowledge ISQM 1.

TERMS OF REFERENCE

Following deliberation, the IESBA approved the [Terms of Reference](#), as amended, for the WG.

Among other matters, IESBA members provided the following comments for consideration by the Working Group:

- How the Code might be further strengthened, such as enhancing provisions on transparency and accountability.
- As part of the WG's information gathering, it may be helpful to gain an understanding of best practices and how technology and new models of work might impact culture, as well as how the current provisions in the extant Code on firm culture and governance have been implemented by firms.
- In developing its recommendations, the WG may identify possible solutions for consideration by regulators and other stakeholders.

PIOB OBSERVER'S REMARKS

Mr. Buchanan conveyed the PIOB's strong support for this work stream as a top priority under the IESBA's new strategy and work plan. He emphasized the importance of having clarity about the scoping and ensuring that the focus on governance and culture covers the whole firm. He also encouraged the IESBA to focus on its remit, which is accounting firms, as broadening the scope to non-PAs at this stage may be a distraction. He further stressed the need to understand the conceptual relationship between culture and governance. He also encouraged the Board to take into account diverse international perspectives.

WAY FORWARD

The IESBA will receive an update on the work stream at its June 2024 meeting.

3. Technology

Mr. Clark, Chair of the Technology Working Group (TWG), opened the session with an update on the activities of the Technology Working Group, including highlights of the meetings held with the Technology Experts Group (TEG) since September 2023.

Mr. Clark further provided a recap of the ethical scenarios that were highlighted during previous updates. Ms. Viljoen explained how the ethical scenarios will be shared, using short videos and social media, to assist PAs in applying the Code when they face these types of ethical dilemmas.

Ms. Viljoen also shared the results of a survey conducted among Board members, technical advisors, official observers, and TEG members. She indicated that the purpose of the survey was to determine whether the results correlated with the TWG's environmental scanning on technologies currently having the biggest impact on the profession.

EDUCATIONAL SESSION

Mr. Clark introduced TEG member Mr. Jason Bradley, Director of Standard Setting and Oversight at the Accounting and Financial Reporting Council in Hong Kong SAR, who presented an educational session on

regulation of Artificial Intelligence (AI). The session covered key definitions in relation to AI, an overview of global approaches to AI regulation and key messages for PAs and standard setters.

IESBA members commended Mr. Bradley for his insightful presentation, and made the following observations:

- A uniform legislative framework for AI could help reduce the discrepancies in reporting and assurance of financial information. Adoption of the United Nations draft resolution could assist in the promotion of "safe, secure and trustworthy" AI systems that will also benefit sustainable development across different jurisdictions. The resolution not only covers technical elements but also the ethical deployment of AI.
- Regulation of AI is a complex, dynamic matter that requires a balance between innovation and protection, recognizing that different jurisdictions have varied approaches and priorities. Regulatory frameworks for AI should address transparency, accountability and oversight, eliminating potential biases, discrimination and human rights violations.
- Collaboration between AI experts and standard setters / regulators is fragmented and jurisdiction-specific. To ensure effective oversight, the onus is on regulators to understand the tools PAs use on a day-to-day basis.

Ms. Dias thanked Mr. Clark, Mr. Bradley and Ms. Viljoen for their informative presentations.

WAY FORWARD

The Working Group will provide an educational session on the topic of blockchain for the IESBA's consideration at its June 2024 meeting.

4. Collective Investment Vehicles, Pension Funds and Investment Company Complexes

Mr. Reid and Ms. Viljoen summarized the Project Team's work on Collective Investment Vehicles (CIVs), Pension Funds and Investment Company Complexes (ICCs), highlighting potential gaps when applying the Code's independence provisions to audits of their financial statements. The IESBA was also briefed on the ways that different jurisdictions deal with auditor independence with respect to these investment schemes.

Among other matters, IESBA participants raised the following comments:

- Whether the Project Team has considered the control aspect of the "related entity" definition, since CIVs often have no employees and make use of third-party service providers for different activities. Board members noted that the ICC rules established by the U.S. Securities and Exchange Commission (SEC) rely on the concept of regulated control that is based on the type of entity, i.e., investment advisor or management company. Meanwhile, the concept of control when applying accounting standards and the Code is based on materiality or the significance of the investment in an entity.

Mr. Reid acknowledged the challenges of applying the accounting rules or the Code to determine the relatedness of parties involved in CIVs. Although these parties may have contractual arrangements with the CIV that give them some degree of control or influence over the CIV's activities or decisions, these arrangements may not be sufficient to meet the criteria of "related" under the accounting rules or the Code. This challenge may explain why ICC rules deem control to ensure consistent assessment of threats to auditor independence with respect to CIV engagements.

- A suggestion to consider the investment advisor's rights, responsibilities, privileges and whether it controls the fund, rather than focusing on the advisor performing management responsibilities. Contractual control is well defined in some accounting frameworks and, if control exists, the entity holding it should be a related entity like a parent. The Project Team was encouraged to consider whether the advisor can be replaced by the Board or Trustees and whether third parties are just service providers, in which case they might not have control or qualify as related entities.

Mr. Reid noted that when a client is not a "publicly traded entity," the Code's independence provisions require the firm to include entities that the client controls as part of the "audit client" but not entities that control the client.

The Board discussed whether the Project Team needs to consider circumstances in which an entity controls a fund, and the audit firm is not required to be independent of that entity.

- There is great diversity and complexity of CIVs in Europe and other regions. The Project Team was encouraged to engage with a broad cross-section of stakeholders across jurisdictions (including Africa and the Middle East) to understand the different models, frameworks, and regulations that apply to investment schemes and to ensure that the Code's independence provisions apply across the spectrum. Governance of CIVs and determination of beneficiaries to ensure appropriate assessment of relevant independence risks were specifically noted as areas that may warrant the Project Team's attention.

Mr. Reid noted that the Project Team will continue to expand its research to develop a comprehensive understanding of the various constructs impacting relevant investment schemes in different jurisdictions.

- Whether the roles of other third-party providers to CIVs, such as administrators, distributors, promoters or sponsors, also cause independence concerns.

Mr. Reid noted that the Project Team has not identified the same issues with other third parties to date; however, this will be monitored to determine if these providers have any significant impact on funds.

- Whether the Code or previous research might have already addressed situations that have characteristics similar to CIVs and pension plans, which might provide insight into dealing with investment schemes.
- An observation that the entities involved with an investment scheme might change very quickly and this might have significant implications on independence threats. The Project Team was encouraged to consider whether there are thresholds for CIVs which shift the situation into creating independence threats, and whether such changes can be tracked in real time.
- Although an audit is a type of assurance engagement, and applying the assurance engagement definition to an audit of a CIV might be useful in expanding what would be considered as the audit client, it may not be in the public interest to do so.

Mr. Reid explained the Project Team is just assessing the underlying principles of an assurance engagement to determine if these principles will assist with any recommendations for the Board.

- A suggestion to consider whether it is in the public interest to scope in certain private CIVs that are limited to extremely qualified or high net worth-individuals/companies which cannot buy or sell their interests once the fund is formed.
- Strict fiduciary duties are associated with CIVs and investment companies have a high awareness of the requirements for the auditor's independence from the CIV-. The Project Team was encouraged to review this through the auditor's lens and whether the auditor needs to investigate the CIV's management structure.
- A suggestion to review public pension funds and sovereign wealth funds that involve the government, as they may have different independence and related entity considerations.

Ms. Dias thanked IESBA participants for their engagement and highlighted the following matters for the Project Team's consideration:

- Clarifying whether the current Code adequately addresses independence concerns with respect to CIVs.
- Researching additional structures and regions, with attention to Europe's large share of the global asset management market and well-established governance structures.
- The fiduciary duty aspect of CIVs and managers' obligations to serve the interests of investors ~~are-is~~ a stabilizing factor ~~which-that~~ might influence any action required by the IESBA.

WAY FORWARD

The Project Team will continue desktop research and engagement with a broad range of stakeholders. The IESBA will receive an update at its June 2024 meeting, with a final report anticipated by the end of 2024.

5. Tax Planning and Related Services

The IESBA considered a draft communications and outreach plan from its Tax Planning and Related Services Rollout Working Group in anticipation of the launch of the final pronouncement, pending PIOB certification at its April 2024 meeting.

The IESBA supported the plan, including expanding outreach to stakeholders beyond the accountancy profession who may use the standards.

WAY FORWARD

The IESBA will receive a further update from the Working Group at its June 2024 meeting.

6. IAASB-IESBA Coordination

Ms. Claire Grayston, IAASB Principal, and Mr. Dan Montgomery, IAASB Consultant, provided an update on the feedback received during the public consultation on the [Proposed International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements](#) (ISSA 5000), including the following matters relevant to coordination between the IAASB and IESBA:

- Determination of sustainability matters and sustainability information;

- With respect to the definition of “relevant ethical requirements” and the specification of compliance with quality management requirements, application of the concept of “at least as demanding” in relation to the IESBA Code and ISQM 1, respectively;
- The determination of, and requirements applicable to, the engagement team and another practitioner;
- Requirements and application material related to “group” engagements; and
- Connectivity with the financial statement auditor.

IESBA members considered the update and raised, among others, the following comments:

- How many responses the IAASB had received from practitioners who are not PAs and the key points they raised. Ms. Grayston and Mr. Montgomery responded that the number of non-PA respondents was not significant, and they raised similar issues as the PA commentators.
- A few concerns around the “three-tiered approach”³ regarding firm-level quality management, specifically ISSA 5000 appearing to permit a firm’s own determination of equivalence to ISQM 1 with respect to professional requirements, or requirements in law or regulation, when an appropriate authority in the particular jurisdiction has not determined that those requirements meet such equivalence. A few IESBA members believed that such an approach could undermine the robustness of ISQM 1. Since quality management is fundamental to compliance with the relevant requirements, including the relevant ethical requirements, others were of the view that the proposal could undermine efforts to achieve equivalence of quality between sustainability assurance engagements performed by audit firms or those performed by other assurance practitioners. They also pointed out that more clarity and guidance would be necessary regarding the determination of whether the professional requirements achieve the aims of the objectives and requirements of ISQM 1.

Ms. Grayston and Mr. Montgomery explained that the proposal in the draft ISSA 5000 post-exposure was intended to address the situation when ISQM 1 is not adopted, or there is no determination by an appropriate authority that laws, regulations or professional requirements are at least as demanding as ISQM 1, in the jurisdiction, and this option would apply only as a last resort.

- Regarding the proposals on group engagements, although there is now a proposal to introduce definitions in proposed ISSA 5000, such as “component” and “value chain,” additional requirements and application material would be necessary for the determination of components and groups.
- A suggestion for the IAASB to consider explicitly differentiating between components within the entity’s organizational boundary and the value chain.
- A suggestion for additional guidance regarding the evaluation of the objectivity and competence of external experts as reliance on their work would be critical for sustainability assurance engagements.
- A suggestion that the IAASB consider amending ISAs so they would also require the auditor to communicate with the sustainability assurance practitioner, when necessary.

IESBA members agreed on the importance of continuing close coordination between the IAASB and IESBA until the finalization of both Boards’ sustainability projects.

³ See paragraph 29(a)-(c) in [Agenda Item 3-H](#) of the March 2024 IAASB meeting.

WAY FORWARD

The IESBA will consider a preliminary overview of the significant comments received on the Sustainability Exposure Draft as well as an IAASB update on the progress of its Sustainability Project at the June 2024 IESBA meeting.

7. Revision of IESs

The IESBA considered a presentation from Ms. Anne-Marie Vitale, Chair of IFAC's International Panel on Accountancy Education (IPAE), and Mr. Bruce Vivian, IFAC Head of Accountancy Education, on IFAC's proposed revisions to the International Education Standards (IESs) to reflect developments in sustainability reporting and assurance.

The IESBA noted the importance of such work and discussed the following matters with Ms. Vitale and Mr. Vivian.

- Whether the proposed revisions to the IESs would address unintentional greenwashing. Ms. Vitale noted that such instances would be no different from an error in the financial statements that was not identified, which could be because the PA did not have sufficient competence. The IESs set out the minimum competency outputs that all PAs should demonstrate at the completion of their Initial Professional Development (IPD). Mr. Vivian also noted that the proposed revisions to the IESs will emphasize applying intellectual curiosity to emerging ideas and practices, to reflect the importance of PAs being adaptable and open to new ideas, including new areas such as sustainability reporting. This can reduce the risk of unintentional greenwashing.
- Whether the proposed revisions to the IESs would be profession-agnostic. Mr. Vivian noted that the IESs are developed for IFAC member bodies and hence there is an inherent limitation to developing profession-agnostic IESs.
- The proposals identify the ability to work in multi-disciplinary teams as a required professional skill in light of the increasing likelihood of PAs needing to use the work of experts and others from a wide range of disciplines.
- How the existing IESs already consider the skills needed for emerging technology and AI, bias, and the public interest.
- The impact of professional examination cheating scandals around the world. Ms. Vitale noted that such cheating scandals erode trust in the profession. In terms of the IESs, while IES 6 *Assessment* prescribes the requirements for the assessment of the professional competence that aspiring PAs are required to demonstrate by the end of their IPD and includes considerations regarding the validity of such assessment, it does not directly touch upon cheating. This is because cheating is directly linked to the integrity of the individual rather than the integrity of the exam itself.

The IESBA also briefly engaged in a discussion about possible future collaborative opportunities between the IPAE and IESBA on the topic of sustainability.

WAY FORWARD

The IESBA will continue liaising with the IPAE and collaborate where opportunities arise and capacity permits.

8. PIE Rollout

Mr. Mintzer, Chair of the IESBA PIE Rollout Working Group (WG), commenced the session by presenting a high-level update on the status of awareness and adoption of the [IESBA PIE Revisions](#) by professional accountancy organizations that are IFAC member bodies. This information was provided by IFAC based on data received from a selected group of its member bodies in 2023.

OPERATIONALIZATION OF THE TRANSPARENCY REQUIREMENT

Mr. Mintzer presented the WG's views on the issue raised by some respondents to the [IAASB Exposure Draft](#) for Track 1 of the [IAASB PIE Project](#) concerning the fact that an auditor's report may not be made available to the public, or may only have limited distribution. The issue is whether, under these circumstances, the use of the auditor's report is sufficient to comply with the public disclosure requirement set out in paragraph R400.20 of the IESBA PIE Revisions.

Mr. Mintzer noted the WG's view that, under these circumstances, paragraph R400.20 has been complied with, recognizing those who do not have access to the auditor's report would not be relying on the additional independence requirements associated with the entity being treated as a PIE. Therefore, the WG proposed no revisions to the IESBA PIE Revisions and to update the answer to Q19 of the March 2023 [IESBA PIE Q&A](#), which currently still refers to the IAASB's consideration of proposed revisions to ISA 700 (Revised) to operationalize paragraph R400.20 of the IESBA PIE Revisions.

The IESBA supported the WG's views and proposals.

QUERIES REGARDING THE IESBA PIE Q&A

Mr. Mintzer presented the WG's views on the queries posed by a few stakeholders on Q14 and Q15 of the IESBA PIE Q&A in relation to compliance with the Code by firms (including the members of the Forum of Firms) when the local PIE definition does not align with the revised IESBA PIE definition after the effective date of December 15, 2024.

Mr. Mintzer reiterated the Board's rationale about the respective roles of the IESBA, relevant local bodies and firms when finalizing the revised IESBA definition. He noted the Board's view that it is ultimately the role of the relevant local bodies to refine the mandatory broad PIE categories so that the right entities can be scoped in as PIEs, and for this reason, firms should not be required to determine if other entities should be treated as PIEs. He further stated that based on the IESBA's rationale, compliance with the Code by any firms (including members of the FoF) means, first and foremost, compliance with the local laws and regulations. Therefore, Mr. Mintzer explained that the WG considers that the answers to Q14 and Q15 are correct and warrant no changes. Instead, the WG recommended that a new question be added to the IESBA PIE Q&A so that the WG's conclusion, if agreed by the Board, would be communicated clearly to stakeholders.

The IESBA reaffirmed its rationale for its revised PIE definition and supported the WG's proposal of adding a new question to the IESBA PIE Q&A. The Board noted the importance of paragraph R400.18 of the IESBA PIE Revisions, without which the global PIE definition would be inoperative given the different local contexts. The IESBA also discussed the opportunity to further encourage local bodies to adopt the revised PIE definition as appropriate.

Messrs. Mintzer and Kwan confirmed that the WG would coordinate with the IAASB PIE Task Force on any alignment issues between the revised IESBA PIE definition and the IAASB's proposed PIE definition as

part of Track 2 of the IAASB PIE project, including clarification that the WG's views only explain, but do not change, the IESBA's decisions and rationale when developing its revised PIE definition.

WAY FORWARD

The WG will prepare the amendments to the IESBA PIE Q&A and the additional Q&A for the IESBA's consideration via email.

9. PIOB Observer's Remarks

Mr. Sullivan expressed his gratitude to Ms. Dias, Board members, staff, and everyone else who assisted in the meeting. He appreciated the Board's understanding of him and Mr. Buchanan stepping late to observe the meeting in the absence of PIOB member Tshego Modise. He stated that he had no concerns to raise on the topics discussed at the meeting beyond congratulating the Board on its ongoing commitment to the public interest. Lastly, Mr. Sullivan praised the Board for its critically important coordination work with the IAASB.

10. Closing Remarks

Ms. Dias thanked Messrs. Sullivan and Buchanan for their unexpected participation in the meeting, acknowledging the difficult conditions and hours. She expressed her gratitude for their collaboration and contributions to the Board discussions.

Ms. Dias also extended her thanks to everyone involved in the meeting, particularly the staff for their hard work in organizing the meeting and preparing the meeting papers. She highlighted the critical role of the staff in making everything happen, especially as the Board transitions to a staff-driven model.

Ms. Dias then praised the Board on its discussion on Firm Culture and Governance, noting that it is a significant milestone that sets a new direction for the future. She shared her appreciation for the Board's enthusiasm and openness to contribute, which serves as a great incentive for the work stream.

Additionally, Ms. Dias highlighted the presentation from the Brunswick Group during the executive session, stressing its importance for the Board's outreach and communication efforts. She encouraged the Board to reflect on the messages from the presentation and to consider how others perceive the Board, which is crucial for the organization's growth.

Ms. Dias also praised the new Board members on their excellent participation and preparations, observing that their contributions were indistinguishable from those of more experienced members.

Finally, Ms. Dias underscored the importance of continued Board member contributions, particularly in the outreach phase for the Tax Planning project.

11. Next Meeting

The next Board meeting is scheduled for ~~September 16-20~~June 10-13, 2024, to be held in New York, USA.