



## PIOB’s Public Interest Issues - IESBA projects

(document updated as of October 2024)

The PIOB’s Public Interest Issues presented in this document are based on the status of IESBA’s projects after the IESBA September 2024 and PIOB October 2024 board meetings. For each selected project, brief background information and project status are provided, followed by the identified Public Interest Issues. The Public Interest Issues may contain questions or concerns relating to the responsiveness of specific initiatives and projects to the public interest. We encourage the IESBA to consider these questions and concerns during the due process of developing the relevant standards.

For further information and details about the IESBA projects, please refer to the website: <https://www.ethicsboard.org/consultations-projects>.

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## **Use of main acronyms**

PIOB Public Interest Oversight Board  
IAASB International Auditing and Assurance Standards Board  
IESBA International Ethics Standards Board for Accountants  
Code The IESBA's Code of Ethics  
ED Exposure Draft

# **1. SUSTAINABILITY REPORTING AND ASSURANCE**

## **Background**

With growing global demand for sustainability reporting users need to be confident with respect to the reliance they can place on such reports. Therefore, the topic of sustainability reporting and assurance has been included in the agenda of international standard-setters<sup>1</sup>. The IESBA has taken a leadership role to identify key ethical and independence challenges that arise from activities and services related to the preparation and assurance of sustainability reports and to develop appropriate new standards accordingly. Two workstreams (WS) within the Sustainability project were initiated by the IESBA:

- WS-1 which deals with independence requirements for sustainability assurance engagements applicable to both professional accountants and to practitioners other than professional accountants,
- WS-2 which deals with ethics requirements for:
  - professional accountants preparing the sustainability information,
  - professional accountants and other practitioners providing assurance services on the sustainability information.

## **Status**

In December 2022 the IESBA approved a relevant project proposal referred to as "Revisions to the Code Relating to Sustainability Assurance and Reporting". At the end

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<sup>1</sup> *The PIOB notes the following public interest matters beyond the remit of the IESBA. It is in the public interest to have a global standard, set with a robust level of public interest oversight, and to avoid fragmentation and potential market confusion in respect of the work effort and the level of assurance provided by different professionals on sustainability reports. Regulators and those charged with governance have a role in ensuring that preparers of the sustainability information as well as assurance providers have the appropriate skills and experience and comply with ethical and assurance standards.*

of January 2024, the IESBA published an ED on the basis of the two workstreams with a 10 May 2024 deadline for comments. The Public Interest Issues described below have been updated during the period of continuing deliberations of comments on the EDs, and further changes to the proposed standards can therefore be anticipated. The Sustainability project is expected to be completed by the end of 2024, in line with market expectations.

### **1.1. Clarity of the standard and consistency within the Code and with the IAASB**

In the context of IESBA’s development of a robust, “profession-agnostic” and “framework-neutral” ethical standard for all sustainability assurance providers, the revisions to the Code of Ethics must be made in language which is clear and accessible to all. We welcome the IESBA’s commitment to this objective and look forward to the outcome of the consultation exercise, specifically regarding the views of stakeholders who are not professional accountants.

Clarity of definitions and terminology in the new standard is critical with respect to areas such as the different types of sustainability engagements which can be performed and the different profiles of practitioners (professional accountants and non-accountants) which may be involved. In this way, the relevant independence, objectivity and other ethical requirements, supported by an adequate system of quality management, can be appropriately applied, with inter-operability as needed and avoiding complexity and potential misunderstanding. This will serve the intended purpose of the standard and provide the transparency which users expect. Practical guidance and material to give examples will further support the objective. We note the link to the Use of Experts project (see 2.1 below) with which there is a need to ensure consistency.

The PIOB has welcomed that, in pursuing their sustainability projects, both the IESBA and the IAASB have identified the need for coordination as a critical matter, especially as they have different timetables for the development and exposure of their respective work. Ongoing alignment between the two boards continues to be vital now that ISSA 5000 has been approved and the IESBA projects on Sustainability and Use of Experts are still under deliberation, to ensure clarity and consistency in approach, terminology, definitions, and concepts. A coherent set of global ethical and assurance sustainability standards will avoid practical implementation challenges and better serve the public interest. The PIOB is of the strong view that only in exceptional instances should there remain inconsistencies between the two boards’ respective standards.

In addition, the PIOB continues to emphasize the need for on-going cooperation between the IESBA and the IAASB following the approval of both standards and



eventual PIOB certification, during the adoption and implementation phase (see also 1.7 below).

## **1.2. Scope of new Part 5 and applicability of Part 4B of the Code**

Addressing previous concerns, the IESBA's approach has now been explained with respect to the development and intended application of a separate Part 5 of the Code versus application of the extant Part 4B of the Code for independence requirements. Part 5 relates to specific types of assurance on sustainability reporting performed by both professional accountants or other practitioners who are not professional accountants with respect to sustainability information that is reported according to a general-purpose framework; required according to law or regulation; or publicly disclosed to support investors' and other stakeholders' decision making. Part 4B relates to other sustainability assurance services which are not covered under the scope of independence requirements in Part 5 and applies only to professional accountants, although other practitioners will be encouraged to apply its requirements.

It is in the public interest to have a level playing field for all sustainability assurance providers, i.e. both professional accountants and other practitioners, who should be subject to the same requirements, for all sustainability assurance engagements, even for those which are not covered under the scope of independence requirements in Part 5. The PIOB acknowledges the commitment of IESBA to address this issue within the current Strategy and Work Plan 2024-2027. However, careful consideration is needed about whether and, if so, how to expand the scope of the Code in this respect, as further described in section 5 of this document.

## **1.3. Proportionate independence requirements for group assurance engagements and value chains**

The PIOB notes that, following the alignment of definitions of "group" and "value chain components" with the IAASB's standard ISSA 5000, the relevant parts of the proposed standard have been amended and restructured. The IESBA has previously recognised the importance of avoiding the risk that independence requirements on assurance providers of sustainability information are unimplementable on a practical basis throughout an entity's value chains. The risk of disproportionality arises because assurance providers may have little control over their independence from other entities in the assured entity's value chain, which may in many cases involve a high proportion of its own sustainability information. For example, the value chain of a bank is partly represented by entities to which it provides loans. While this issue is being addressed in the proposed standard, and recognising that this is a complex matter, the PIOB encourages the IESBA to focus on clarity in its drafting in respect of the

different independence requirements from the perspective of various assurance providers participating in group assurance engagements (i.e. group sustainability assurance practitioner, firm and team, component practitioner and another practitioner), while guarding against the risk of diminishing the level of independence required to fulfil the public interest expectation, and with the enforceability of these respective independence requirements in mind.

#### **1.4. Independence and categorization of sustainability assurance**

The PIOB welcomes the fact that the IESBA has reconsidered the categorization of sustainability assurance engagements in the context of independence requirements, where the sustainability assurance and financial audit are performed by the same assurance provider.

The PIOB encourages the IESBA to consider the conceptual basis of its current view that sustainability assurance fees are proposed to be treated in the same way as statutory audit fees, however only for in instances where the sustainability assurance is a statutory requirement mandated by law or regulation. In instances where sustainability assurance is voluntary, the relevant fees have been proposed to be classified as fees for non-audit services, which could be challenged from the conceptual point of view. Furthermore, should sustainability assurance fees be categorised as non-audit services, the Code provisions on threats to the assurance provider's independence, would have to be applied.

As sustainability assurance and financial audit, both of which are assurance services, are compatible in principle, the PIOB is concerned that classifying voluntary sustainability assurance engagement as a non-audit service would result in unnecessarily strict independence requirements without public interest justification.

#### **1.5. Strengthening the NOCLAR communication**

##### *Two-way NOCLAR communication between the financial statement auditor and sustainability assurance provider, in all instances*

The PIOB underlines the importance of two-way communication between different assurance providers to ensure adequate and timely follow-up of identified instances of suspected or actual non-compliance with laws and regulations (NOCLAR), which may include suspected greenwashing, in both the financial statements audit and the sustainability assurance engagement.

While communication may be easier in instances where the group and component sustainability assurance providers as well as the financial statements auditor are from the same firm, the communication is necessary in all instances to ensure a level-playing field.

The current draft proposes one-way communication on suspected or actual NOCLAR from the sustainability assurance provider to the financial statements auditor (unless prohibited by law or regulation). This requirement is only applicable if the sustainability assurance client is also an audit client or a component of an audit client of the same firm. In other instances, the requirement is only that the assurance provider 'shall consider whether to communicate'.

*Two-way communication between the group sustainability assurance provider and assurance providers of the value chains*

The PIOB notes that the current draft only contains requirements for communication between the group sustainability assurance team and sustainability assurance practitioners of group components. There is no required communication by another practitioner performing work for the group assurance provider at a value chain component.

Overall, the PIOB encourages the IESBA to address the need for timely broader two-way communication in context of NOCLAR between all relevant assurance providers.

## **1.6. Transitional provisions**

The PIOB has noted that the current draft contains an open-ended transitional provision, which might have negative unintended consequences, including self-review threats to independence, in instances where multi-year contracts for non-assurance services were entered into just before implementation of the standard.

In addition, there could appear risks of accepting a sustainability assurance engagement whilst subsequently discovering that there is an independence issue regarding the value chain component. The PIOB encourages the IESBA to further consider such potential independence risks with respect to framing the transitional provisions.

## **1.7. Monitor and response to implementation difficulties**

In light of sustainability assurance being a relatively new field and that Part 5 of the Code is to be set as an overarching standard, it should be foreseen that adoption challenges might arise in various jurisdictions as sustainability assurance practitioners start implementing the standard. The PIOB encourages the IESBA to create a monitoring and rapid response mechanism to identify and respond to such risks and challenges, that would add to the consistent and effective implementation of the standard. Coordination with the IAASB will be important in this regard (see also 1.1 above).

## **2. USE OF EXPERTS**

### **Background**

Considering the growing involvement of experts outside of the audit engagement team in areas such as estimates, technology and, in particular, sustainability reporting and assurance, the PIOB supported the IESBA's decision to assess the appropriate levels of independence requirements considering the nature of their work and contribution. Currently, external experts are explicitly excluded from the definition of engagement team in the Code, and therefore these individuals are not subject to any independence requirements of the Code. It is important to address how a professional accountant should assess whether it is appropriate or not to use the work of an expert for the engagement and how to evaluate competence, capabilities, and objectivity of such experts.

The PIOB has welcomed the IESBA's responsiveness on this topic and the broad scope of the project, encompassing both the preparation of and assurance on sustainability information. The PIOB also emphasised the importance of the global outreach roundtables seeking views from a diverse range of stakeholders, especially from outside the accountancy profession.

### **Status**

At the end of January 2024, the IESBA published an ED with a 30 April 2024 deadline for comment letters. The Public Interest Issues described below have been updated during the period when the IESBA is in the process of analyzing comment letters in respect of the issued ED and amending its wording. The project is expected to be completed, with approval of the final standard, by the end of 2024.

### **2.1. Clarity and enforceability of the standard and its consistency within the Code and with the IAASB**

The PIOB has emphasized the importance of clear definitions to ensure that ethical and independence requirements are appropriately applied to all relevant individuals. This requires consideration of categories such as "internal experts", "external experts", and "individuals providing consultation" to understand in which category an individual falls in given circumstances.

The PIOB has supported the approach with a new concept of requirements concerning an external expert's objectivity, which has been introduced because the direct application of independence requirements on external experts who are non-professional accountants would not be operable and enforceable. Clarity in the definitions is critical to determining whether the new concept concerning objectivity meets the expectations of users of external audit and assurance reports. Equally, it is integral to ensuring the accessibility and interoperability of the Code as a whole.



The PIOB also supports the intention of the IESBA to bring more clarity into this standard regarding several other areas, such as the practical implementation of prohibition to use an expert if the professional accountant concludes that his or her competence, capability or objectivity is not sufficient, or consequences of using the work of multiple experts.

Focusing on enforceability of the amended standard, the PIOB emphasizes the importance of a stand-back moment in order to evaluate whether all requirements by themselves without any application material would cover all aspects that should be required to drive the expected and required behaviors in the public interest.

The PIOB encourages the IESBA to continue its close coordination between the Use of Experts and the Sustainability projects, as well as with the IAASB's Sustainability assurance project. This coordination is vital for alignment, especially of definitions and terminology and the avoidance of confusion and inconsistent application. The PIOB is of the strong view that only in exceptional instances should inconsistencies be allowed to remain between the two boards' respective standards.

### **3. FIRM CULTURE AND GOVERNANCE**

#### **Background**

This is a new project included in the Strategy and Work Plan 2024-27 due to a clear need to respond to persistent cases of unethical behavior within firms and to consider the broader issue of firm culture and governance and how these might impact the ethical behavior and compliance with the Code. The PIOB has expressed strong support for this project.

#### **Status**

Work on this topic was discussed for the first time during the March 2024 IESBA meeting and again tabled at the following IESBA meetings in 2024.

During these meetings the IESBA was in an information gathering phase while the project objectives and Terms of Reference were approved. At its September 2024 meeting the IESBA considered how to execute the project, most likely through two workstreams, with one being a standard-setting project and the other focused on developing non-authoritative material.

The Public Interest Issues outlined below reflect the fact that the project is still currently in its fact-finding phase.



### **3.1. Scope and goals of the project**

While recognizing the importance of fact-finding, the PIOB encourages the IESBA to clearly articulate the risks impacting the public interest which the project intends to address and specifically the behaviors which give rise to such risks. This articulation will focus the fact-finding and support the scoping of any proposed sections of the Code to be developed or revised. In turn, this will help ensure that the Code can be enhanced in a timely way within the timeframe of the Strategy and Work Plan 2024-2027.

The PIOB supports the intention of the IESBA addressing risks which arise within legal structures used by firms in the market, with attention to their interplay with incentives for unethical behavior and corporate governance arrangements, but it is important that the IESBA remains within its remit and leaves the regulation of legal structures to regulators. The PIOB supports the IESBA's focus on ensuring the ethical behavior of individuals of different backgrounds and expertise within the firm and ethical functioning of governance arrangements.

The PIOB welcomes the IESBA's decision to consider all service lines within the firm, including audit, rather than a narrow approach focused only on the audit service line of the firm. An ethical culture that is integrated in the firm's strategy covering all service lines with supporting performance indicators, measurement and monitoring can guide a systematic approach to continuous improvement. Considering these factors, the project will more completely address "firms" as the market-facing multi-service providers they are in reality. It could thereby take into consideration the interplay between traditional service lines such as audit with others that are not necessarily undertaken by professional accountants. Equally, it is important to cover arrangements within and across jurisdictions often housed under "network" arrangements.

The PIOB supports a wide fact-finding approach but cautions against potential distraction into matters outside the remit of the IESBA. It is important from the public interest perspective to consider the diversity of market experiences across jurisdictions. Case studies relating to a limited number of national frameworks are useful but must not unduly influence the standard-setting process by constraining consideration of potential amendments of the Code for global benefit.

### **3.2. Achievement of behavioral changes**

Clearly defined objectives of the project should be aimed at instilling behavioral changes in specific areas through focused amendments of the Code. In scoping those objectives, the PIOB encourages the IESBA to focus on factors which contribute to unethical behavior, and the pursuit of targeted amendments of the Code to achieve

behavioral change, rather than “compliance” steps. It appears to be in the longer-term public interest to build on the fundamental ethical principles of the Code.

## **4. COLLECTIVE INVESTMENT VEHICLES AND PENSION FUNDS**

### **Background**

The revised definition of “Public Interest Entity” (completed in 2022) does not explicitly include Collective Investment Vehicles (CIVs) and Pension Funds (PFs), but the Code contains a strong encouragement for local bodies to explicitly consider adding CIVs and PFs as categories of PIEs in their own jurisdictions. The PIOB supported this approach as the PIE definition was revised in 2022, regarding this as appropriate at that point in time. Equally, the PIOB strongly encouraged the IESBA, at the time, to undertake further research activities in respect of CIVs and PFs, specifically with respect to their interaction with related entities, and relationships with and between trustees, managers and advisors.

### **Status**

In line with the approved Strategy and Work Plan for 2024-2027, the IESBA had first discussions of the CIVs and PFs project at the March, June and September 2024 Board meetings, presenting initial findings of its research on this topic to gain a deeper understanding. The preliminary conclusions are that unrelated third parties that undertake significant management responsibilities on behalf of CIVs and PFs are currently not captured by the Code’s definitions of “audit client” and “related entity” and therefore there is a risk that the auditor would not apply the conceptual framework in a consistent manner. The IESBA’s intended way forward is to solicit further in-depth views about the mentioned gap in the Code, through a consultation paper. This could inform whether there is a need to extend the Code to address this gap.

The Public Interest Issue considerations below reflect the fact that the project is still in its initial fact-finding phase.

### **4.1. Incorporation of Collective Investment Vehicles and Pension Funds into the Code**

The PIOB supports the IESBA’s activities to identify to what extent there is currently a public interest “gap” in coverage of the Code - i.e. risks arising from the absence of the specific independence provisions addressing audits of CIVs and PFs. The PIOB acknowledges that it is now the intention of IESBA to consider potential enhancements to independence provisions in the Code rather than reconsidering inclusion of CIVs and PFs explicitly in the PIE definition.



The PIOB supports the proposed way forward by the IESBA, through a consultation paper. It will be important to ensure that risks to the public interest are clearly articulated so that any eventual proposed revisions to the Code are tailored appropriately, also with scalability in mind, in order that they meet the public interest without unintended consequences.

## **5. POTENTIAL EXPANSION OF THE SCOPE OF THE CODE OF ETHICS**

Consideration of the potential expansion of the impact of the Code, including possibly expanding the scope and application of the Code, is part of the IESBA's 2024-2027 Strategy and Work Plan, which the PIOB concluded in April 2024 has been developed in a manner consistent with agreed due process and is responsive to the public interest. It is important to reflect carefully on possible approaches to extending the impact of the Code to professionals other than accountants, who might not be required to comply with the expanded Code if it is not adopted by specific jurisdictions. This will necessarily take time and resources. It is also important to consider the potential impact on the Code where professional accountants are concerned, as any expansion of the scope would necessarily require more universal language to allow other professionals to understand and apply the Code.

In summary, careful consideration of whether and how to expand the scope of the Code is needed. Any decisions will have to be based on clear conclusions from robust engagement with investors, users, regulators and other stakeholders both within and outside the accountancy profession about their acceptance of the expanded Code through its adoption in various jurisdictions.