

**Draft Minutes of the 88<sup>th</sup> Meeting of the  
INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS**

**Held on September 16-20, 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  
Héctor Lehuedé  
Rania Uwaydah Mardini  
Christelle Martin  
Andrew Mintzer  
Paul Muthaura  
Luigi Nisoli  
Amarjeet Singh  
Channa Wijesinghe  
David Wray

Apologies:

**Technical Advisors**

Deepa Agarwal (Mr. Singh) (Days 4-5)  
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) (Days 1-4)  
Natashia Soopal (Ms. Adam)  
Bruno Tesnière (Ms. Martin)  
Kristen Wydell (Mr. Wijesinghe)  
Masahiro Yamada (Mss. Borgerth and Imura)

Charles Luo (Mr. Muthaura)

**Non-Voting Observers**

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

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

Present: Janine van Diggelen

**IESBA and IFAC Staff**

Present: James Gunn (Managing Director, Professional Standards) (Days 4-5), Ken Siong (Program and Senior Director), Linda Biek (Director) (Day 1), Geoffrey Kwan (Director), Laura Leal, Kam Leung, Jon Reid, Szilvia Sramko, Carla Vijian, Joanna Bernard, Jeanne Viljoen, Astu Tilahun, Diana Vasquez  
David Johnson (IFAC Communications)

## 1. Opening Remarks

### WELCOME AND INTRODUCTIONS

Ms. Dias welcomed all participants and public observers to the third meeting of 2024, held at the American Institute of Certified Public Accountants' (AICPA) offices. She conveyed the Board's gratitude to AICPA for hosting this meeting at its offices. Ms. Dias extended a special welcome to Ms. Deepa Agarwal, new Technical Advisor to Mr. Singh, and Ms. Kramerius, returning as Technical Advisor to Mr. Nisoli.

Ms. Dias also welcomed Messrs. Richard Fleck, Consultant to the Firm Culture and Governance and Collective Investment Vehicles (CIVs) work streams and a former IESBA Deputy Chair; and Prof. Jens Poll, Sustainability Task Force Member and former IESBA member. She also welcomed as observers Mss. Caroline Lee and Liesbet Haustermans, former IESBA Deputy Chair and IESBA member, respectively, and Ms. Denise Canavan and Mr. Jens Engelhardt, both former IESBA Technical Advisors.

Ms. Dias then updated the Board on the activities of the Planning Committee during the quarter, including updates on the Sustainability, Experts and Firm Culture & Governance work streams; discussion of the roadmap for adoption and implementation of IESBA standards, including the forthcoming Sustainability and Experts final standards; and updates on recent and upcoming outreach activities.

### APPROVAL OF MINUTES

The IESBA approved the minutes of the [September-June 2024](#) public session as amended.

## 2. Sustainability

### COMMON ISSUES

The IESBA considered a report-back on recent engagement with the International Federation of Accountants' (IFAC) Small and Medium Practices Advisory Group and Public Policy and Regulation Advisory Group.

The IESBA then considered an overview of the feedback from respondents to the Exposure Draft [Proposed International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) \(IESSA\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting](#) (Sustainability ED) on the following general topics:

- Equivalence of the IESSA to the ethics (including independence) standards for audit engagements in the extant Code, and designing the IESSA to be profession-agnostic and framework-neutral;
- The responsiveness of the IESSA to the public interest, considering the Public Interest Framework's qualitative characteristics; and
- Alignment of the effective date of the IESSA to that of the International Auditing and Assurance Standards Board's (IAASB) ISSA 5000.<sup>1</sup>

Among other matters, IESBA participants raised the following comments or questions:

- There is a need to balance the urgency to make the standards available for jurisdictions to adopt against the time needed to address implementation challenges. While the IESSA is equivalent to the

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<sup>1</sup> International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*

ethics (including independence) standards for audit, new provisions, including independence considerations for the value chain, require changes to quality management and processes, necessitating transitional provisions.

In response, Mr. Babington noted that aligning with the IAASB provides leverage by entering the market at the same time, but he agreed that the IESBA needs to provide the right balance with transitional arrangements.

- Highlighting clearly what is incremental in Part 5 for professional accountants (PAs) from what is already applied in Parts 1 to 4A of the Code relevant to audits, will greatly assist PAs with implementation.

In response to queries raised about adoption of IESSA by non-PAs, Mr. Siong provided an update on recent discussions with the International Accreditation Forum (IAF) with respect to the adoption of both the IESSA and ISSA 5000 and related licensing arrangements with IFAC, with the IAF facilitating licensing arrangements with national accreditation bodies and promoting practice consistency. Messrs. Babington and Siong further noted that:

- The IAF currently estimates approximately 20 national accreditation bodies out of the 90+ national accreditation bodies globally that are IAF members, and 200 conformity assessment bodies (CABs), which undertake sustainability assurance engagements (SAEs), will use the standards. The names of the national accreditation bodies are yet to be provided to the IESBA.
- The IAF has not raised concerns regarding the implementation and application of the IESSA, but its role is not to challenge the quality and robustness of standards developed under a recognized due process. Rather, that role is to facilitate adoption.
- The IAF is making good process on its “link document” which will identify incremental obligations for CABs and will be critical for the IESBA to identify implementation support materials that should be developed.
- CABs might apply the IESSA mandatorily or on a voluntary basis, and whether non-PAs will be allowed to perform mandatory sustainability assurance will be determined at a jurisdictional level. The IESSA is framework-neutral and might be used with ISSA 5000 or another assurance framework.
- There are other non-PA providers outside the IAF ecosystem. In this regard, they highlighted the importance of accommodating all participants, and to recognize different levels of sophistication.
- The Code is currently recognized in the Financial Stability Board’s (FSB) Compendium of Standards, and that engagement with the FSB will continue.

The IESBA also considered the Task Force’s proposals to align the effective date of the IESSA with that in ISSA 5000 by making it December 15, 2026 for the IESSA and other revisions to the Code relating to sustainability assurance and reporting, with early adoption permitted and encouraged. IESBA members were generally supportive of the effective date proposal. The IESBA also highlighted the importance of allowing early adoption to enable jurisdictions to adopt before the effective date. There was also a suggestion for the Task Force to consider if additional transitional provisions are needed to ensure sufficient time for firms to implement the new standards.

## IESBA-IAASB COORDINATION AND FIRST-READ OF THE REVISED DRAFT STANDARDS

The Sustainability Task Force co-Chairs Mr. Babington and Ms. Martin, IESBA Principals Ms. Leal, Mr. Reid and Ms. Sramko, and IESBA Technical Advisor Mr. Billing presented the analysis of the significant comments on the Sustainability Exposure Draft, Workstream (WS) 1 and 2's responses to the issues raised in such comments, and the proposed changes to the Sustainability ED for the IESBA's first-read.

They informed the IESBA about the close coordination with the IAASB Sustainability Task Force and the developments regarding the common matters in the proposed IESSA and ISSA 5000. The IESBA supported and commended the coordination effort and emphasized the importance of close alignment and interoperability between the two Boards' standards. However, a few IESBA members questioned whether the coordinated definitions and approach added more complexity to the proposals, especially to the determination of value chain components (VCCs). It was also noted that although the IESSA should be interoperable with the IAASB's sustainability assurance standard, it should also be framework-neutral. A few IESBA members cautioned against a fully coordinated approach with the IAASB at the expense of operability with other assurance standards.

Mr. Babington and Ms. Martin explained that the objective of the coordination was to ensure the interoperability of the standards and common definitions. However, the coordination did not result in significant changes to the proposed independence considerations in the ED. Mr. Siong added that the benefit of close coordination and development of common definitions in IAASB and IESBA sustainability standards was raised by several stakeholders from various stakeholder groups during the public consultation.

Ms. Dias reiterated the importance of coordination between the IESBA and IAASB as long as the coordinated approach promoted the public interest.

### *Group Sustainability Assurance Engagements*

In light of the amendments to ISSA 5000 post-exposure, IESBA members supported retaining in the IIS the proposals specifically addressing group engagements. They also recognized and appreciated WS1's alignment efforts with ISSA 5000, and the proposed simplification by deleting Section 5700 in the ED.

IESBA members made the following comments, among others:

- Regarding the proposed determination of group components and VCCs, a few questions were raised concerning the term "operational control" in the proposed definitions. An IESBA member was concerned whether it was justified to extend the independence requirements to a component solely based on operational control but without actual control over that component.
- Some IESBA members had concerns that the term "performing assurance work at," as used in Section 5405, was not sufficiently clear and could create inconsistent application. They questioned whether the IAASB had used the same term in ISSA 5000 with the same meaning. They asked WS1 to consider providing guidance on what activities "assurance work" covered since the application of that term would determine the scope of entities covered by the independence requirements.
- A few IESBA members questioned whether it was appropriate that the independence requirements with respect to VCCs at which assurance work is performed focused only on the entity but not any of its controlled entities. An IESBA member raised whether any services provided to a controlled entity of a VCC at which assurance work is performed could create threats to independence. Another IESBA

member, however, supported the proposed approach given the challenges in accessing information upstream and downstream of the value chain. However, he acknowledged that this practice might change over time.

- It was suggested that WS1 consider whether guidance is necessary regarding changes at VCCs, similar to the proposed guidance in Section 5405 for changes at group components.
- A few IESBA members asked WS1 to provide further guidance and consider possible ways to further simplify the requirements to facilitate their proper application to groups SAEs, especially when VCCs are involved.

#### *Using the Work of Another Practitioner*

IESBA members considered the proposed changes to the provisions applicable when the firm uses the assurance and non-assurance work of another practitioner and the report-back on the relevant coordination with the IAASB. They raised, among others, the following matters:

- A suggestion to clarify the consequences if the firm is unable to confirm the other practitioner's independence in accordance with Part 5. In this regard, it was questioned whether this was addressed in the assurance standards and whether the firm has the option to use the practitioner's work in any form for the engagement.
- A suggestion to clarify in Section 5406 that the firm could also comply with the relevant requirements in Section 5406 if the other practitioner is independent in accordance with other independence standards that are at least as demanding as Part 5.

#### *Scope of IIS in the IESSA*

Ms. Dias briefed the IESBA on the proposed suggestion from the International Organization of Securities Commissions (IOSCO) to extend the scope of the IIS to all SAEs where the sustainability information is prepared in accordance with laws or regulations. Ms. Dias asked WS1 about the potential impact of IOSCO's proposed amendments. Mr. Babington explained that the proposed scope was in line with the premise of equivalence between audits of financial statements and SAEs that have the same level of public interest as audits. Mr. Siong added that if the IESBA were to extend the proposed scope of the IIS in Part 5 as suggested by IOSCO, the scope of Part 4A should also be extended to cover audit engagements that might be mandated by law or regulation and are currently covered by Part 4B of the Code, such as audits of specific elements, accounts or items of a financial statement. He believed that requiring the application of the more stringent independence requirements to such mandated engagements could potentially create an undue burden for smaller firms that perform many such engagements that are more limited in scope.

A few IESBA members raised the contrast between the scope of the IIS in Part 5 and the application of the extant IIS in Part 4B to certain SAEs. Since ISSA 5000 would apply to all SAEs, they questioned if the different independence requirements in Part 5 and Part 4B were in line with ISSA 5000. They also had concerns about Part 4B not being explicitly applicable to practitioners who are not PAs in circumstances where Part 5 would not be applicable. Mr. Babington and Ms. Sramko responded that ISSA 5000 requires sustainability assurance practitioners (SAPs) to comply with the relevant ethical (including independence) requirements set out in the Code or other standards that are as demanding as the Code. Accordingly, depending on the characteristics of the specific SAEs, the relevant independence requirements might be set out either in the IIS in Part 5 or in Part 4B. Mr. Babington added that the IESBA has previously committed

to considering developing a profession-agnostic Part 4B in the future. He also highlighted that there was no expectation or public interest gap between the scope of the IIS in the IESSA and ISSA 5000.

#### *Non-Assurance Services*

A few IESBA members were of the view that the new proposed examples within certain paragraphs in the subsections to Section 5600, while added to respond to stakeholders' comments, might create inconsistency with Part 4A where examples are not given in the corresponding paragraphs. Accordingly, they suggested that IESBA Staff consider including these examples in non-authoritative guidance instead.

#### *Proportion of Fees*

IESBA members supported WS1's initiative to address respondents' comments regarding the fee-related proposals. However, some IESBA members disagreed with differentiating between threats created by fees for SAEs mandated by law or regulation or fees for SAEs not so mandated. They were of the view that audit fees and sustainability assurance fees should be treated the same way, not giving rise to a specific threat in relation to the proportion of fees for services other than audit to the audit fee, if equivalent independence requirements apply to both types of engagements. Mr. Babington noted that in many jurisdictions, audit is defined and regulated while the regulation around sustainability assurance is still undeveloped in many jurisdictions. He explained that the proposals were intended to address the current practice and the potential independence-related risks.

An IESBA member and Mr. Siong were of the view that the current proposal would provide different independence regimes in jurisdictions where sustainability reporting is not mandated.

#### *Transitional Provisions*

A few IESBA members suggested considering general transitional provisions for the independence requirements applicable with respect to the value chain. They believed that PA and non-PA practitioners would need more time to design and implement systems to effectively support compliance with the independence standards. Mr. Siong noted that based on the December 2026 effective date, firms would need to apply the provisions in the IESSA for the 2027 reporting year in most cases. He was of the view that this timeline should allow for sufficient lead time for implementation. Mr. Babington added that the determination of the value chain is linked to the applicable reporting framework. He explained that, because of this determination, if regulators decided to allow more time for reporting on the value chain, the IESSA's provisions would follow that approach and timeline.

Regarding the proposed transitional provisions for engagements on non-assurance services started but not completed before the effective date, an IESBA member had concerns that firms could misuse it and enter into long-term engagements. Ms. Dias commented that it should be clear what the Board's intent was and the IESBA should set out an end date for such ongoing engagements. Mr. Siong clarified that the proposal was in line with the transitional provisions for the April 2021 revised NAS provisions. He added that it was not just a matter of the use of the transitional provision being at the discretion of the firm but also that the client would need to decide independently whether it would be prepared to enter into a long-term NAS contract with the firm. In addition, he explained that the Code requires compliance with the spirit and not only the letter of its provisions. He suggested that IESBA Staff could clarify this matter as part of FAQs or other non-authoritative material.

### *Definitions of Sustainability Information and Sustainability Matters*

Ms. Martin recapped the IESBA's strategic direction to the Task Force in June 2024 to further coordinate with the IAASB with the aim of developing a shared definition for "sustainability information" and for a new term "sustainability matters." These shared definitions should have a common component that will be used by both Boards' standards, with the possibility of additional components specific to each Board's standard.

Against this background, Ms. Martin presented WS2's proposed revised definition of "sustainability information" and new definition of "sustainability matters" as agreed with the IAASB's Sustainability Task Force as part of the two Boards' coordination effort. Ms. Martin pointed out that the definition of "sustainability information" has both a common component as well as an additional component that describes what could constitute sustainability information for the purposes of the IESBA standards. The IESBA was supportive of the proposed coordinated approach as well as WS2's proposed definitions of "sustainability information" and "sustainability matters."

### *Scope of the Proposed Ethics Standards in Part 5*

Ms. Leal explained that the key comments from respondents on the proposed ethics standards in Part 5 mainly relate to the relationship between the proposed scope of the ethics and independence standards in Part 5, the encouragement for non-PAs to apply Part 4B of the Code, and the fact that non-PAs may be subject to other rules of conduct apart from the IESSA.

The IESBA was supportive of the WS2 proposals to, among other things, retain the scope of the ethics standards in Part 5 and the encouragement for non-PAs to apply Part 4B, with a few suggested refinements to improve clarity and simplicity.

### *Inclusion of Section 5270 in IESSA*

Ms. Leal explained that the key comments from respondents to the Sustainability ED on the proposed inclusion of Section 5270 in the IESSA mainly relate to additional specific examples of pressure to breach the fundamental principles in the context of SAEs.

The IESBA was supportive of WS2's proposals to retain the scope of the proposed Section 5270. A few IESBA participants made suggestions to improve the clarity of the proposed examples and to include additional examples in the sustainability assurance and reporting areas. The IESBA also agreed with WS2's proposal not to add an equivalent Section 230 to the IESSA.

### *Non-Compliance with Laws and Regulations (NOCLAR)*

Ms. Leal highlighted key comments from respondents on the proposed new requirement relating to communication of NOCLAR between the SAP and the auditor. Some IESBA participants questioned WS2's proposal to adopt a similar approach to the one used in the extant Code as set out in paragraphs R360.31 to R360.33. They expressed their preference for adopting a more stringent requirement for both practitioners to communicate NOCLAR irrespective of whether they are from the same firm or network firm. Upon deliberation, the IESBA agreed with WS2's proposal, taking into account the equivalence nature of the IESSA. The IESBA also agreed that the issue should be analyzed as part of the upcoming NOCLAR post-implementation review so that all NOCLAR-related topics in the Code (in Parts 2, 3 and 5) can be assessed holistically.



With regards to the other key comments raised by the ED respondents on practical challenges arising from the fact that the SAP and the auditor are both subject to NOCLAR regimes, NOCLAR in the value chain, and the NOCLAR-related changes in extant Part 2 of the Code, the IESBA was supportive of WS2's proposals with a few refinement suggestions to improve clarity and consistency.

#### *Ethics Standards for Sustainability Reporting*

Mr. Reid presented the key comments received from respondents on the sustainability reporting-related revisions in the Sustainability ED and the proposed responses from WS2 to address these comments. The comments mainly related to suggested amendments to, or removal of, sustainability-related examples, and proposed new examples on greenwashing, forward-looking information, and conflicts of interest.

The IESBA was supportive of WS2's proposals, with suggested refinements to improve clarity of the sustainability-related examples in paragraphs 220.3 A2, 220.4 A3, 220.5 A1 (fourth bullet point) and 300.7 A4a.

#### PIOB OBSERVER'S REMARKS

Ms. [Vyan Diggelen](#) acknowledged the close coordination between the IESBA and IAASB regarding their common and aligned definitions. She asked the Board to consider key principles in the IIS and whether the proposed definitions would be capable of supporting those principles, for example, in relation to the determination of a VCC and the independence of the SAP from the VCC.

To address the comments raised in relation to the perceived complexity of the independence provisions, she suggested that the IESBA develop a comprehensive visual aid, e.g., flowcharts, related to Sections 5405 and 5406 that clearly demonstrates the independence requirements applicable to all individuals and firms involved in a group SAE.

Concerning the proposal on the proportion of fees as it pertains to the distinction between audit fees and sustainability assurance fees, she noted that the PIOB's view was that fees for both engagements should be treated the same way, and the independence requirements should be the same irrespective of whether the sustainability reporting was mandated by law or regulation. She added that she did not believe that a large proportion of sustainability assurance fees to audit fees could create threats to independence.

Regarding the proposed communication requirements between the SAP and the auditor in relation to NOCLAR, Ms. [Vyan Diggelen](#) expressed a preference for a more stringent requirement for both the SAP and the auditor to communicate NOCLAR to each other at all times, which would facilitate enforcement.

Regarding the effective date and the transitional provisions, she shared the concerns raised about the potential misuse of the proposed transitional provision for NAS.

#### WAY FORWARD

The Board asked the Task Force to consider the input received and present key revised proposals for consideration at the November 2024 meeting. The Board also asked the Task Force to prepare a revised draft of the proposed IESSA and other Sustainability-related revisions to the Code, with a view to final approval, at its December 2024 meeting.



### **3. Using the Work of an External Expert**

Ms. Endsley, Chair of the Using the Work of an External Expert Task Force, Ms. Leung and Ms. Bernard presented a full analysis of the significant comments received from respondents to the exposure draft (ED), [\*Using the Work of an External Expert\*](#), and a first-read draft of the provisions incorporating the Task Force's proposed revisions to respond to the feedback from respondents. Ms. Leung also presented revisions to the flowchart contained in the ED to facilitate the classification of different types of experts.

The IESBA was supportive of the direction of the proposed revisions, including those relating to coordination with the IAASB on the following matters:

- The proposed definition of “expertise.” The Task Force proposed to revise the definition to recognize the importance of the element of “experience,” resulting in full alignment with the IAASB’s definition of the same term; and
- New application material added to better link the requirements to evaluate and conclude on the external expert’s competence, capabilities and objectivity (CCO) in the proposed ethics provisions with the relevant requirements in the IAASB’s performance standards, including ISSA 5000. In this regard, the IESBA also noted that the IAASB’s Strategy and Work Plan 2024-2027 includes a project for narrow-scope amendments to ISA 620<sup>2</sup> and other relevant standards arising from this IESBA project on using the work of an external expert.

Various drafting suggestions were also provided to refine the provisions and flowchart. Among other matters, IESBA participants raised the following comments and suggestions for the Task Force’s consideration:

#### *Agreeing the Terms of Engagement with an External Expert*

- To clarify the period covered in the requirement to obtain a commitment from the external expert to communicate any changes in the information provided. This is because there could be a gap in the period between the end of the period covered by the report and the start of the PA’s engagement.

#### *Evaluating the External Expert’s Competence, Capabilities, and Objectivity*

- The addition of the phrase “to the extent not otherwise addressed by other professional standards” in the requirement for the PA to evaluate whether an external expert has the necessary CCO could inadvertently create arbitrage and therefore weaken the requirement.
- To reinstate the example of a self-review threat when evaluating the external expert’s objectivity as it is still relevant for the PA to consider whether such threat is at an unacceptable level.
- To recognize that a PA might face pressure to “overlook” issues with the external expert’s CCO if such expert’s work was already far advanced. In this regard, Mr. Siong further observed that this was a point of emphasis that some regulators raised during outreach.
- To highlight that a PA might also face pressure to “cherry-pick” a particular external expert, considering the influence their work might have on the engagement.

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<sup>2</sup> International Standard on Auditing (ISA) 620, *Using the Work of an Auditor’s Expert*

*Additional Objectivity Requirements for an Audit or Other Assurance Engagement*

- The phrase “to the best of their knowledge” in the requirement for a PA to request the external expert to provide information on specific interests, relationships and circumstances could allow for differing levels of diligence and thoughtfulness applied by the external expert in responding to the information request.

A few IESBA members viewed that this phrase weakened the requirement. On the other hand, a few other IESBA members were of the view that it is generally presumed that the provision of information by an individual is to the best of that individual’s knowledge, and therefore it is arguable that the phrase does not weaken the requirement.

An IESBA member further observed that, ultimately, external experts are not under the direction, supervision and review of the PA, and therefore any requirement for the external expert to perform procedures to gather the information to be provided to the PA would not be enforceable.

- To reinstate the period covered in the requirement for the PA to request specific information from the external expert for the evaluation of objectivity, as a request that is not time-bound would create practical challenges.
- With respect to positions currently held by the external expert’s immediate family or by management of the external expert’s employing organization in the entity at which it is performing work, to reinstate positions “previously held.”
- With respect to gifts and other benefits received by the external expert, their immediate family or the external expert’s employing organization, to align the corresponding safeguard with that in the Inducements section of the extant Code.

*Concluding on the External Expert’s CCO*

- To be more direct and explicit regarding the prohibition to use the work of an external expert who does not have the necessary CCO.
- To add guidance regarding the circumstance where the PA has concluded that an external expert does not have the necessary CCO for the PA’s purpose, but where such [an](#) expert is engaged by the PA’s client as a management’s expert, and subsequently whether the PA can use the work of such expert in their capacity as a management’s expert.

Ms. Endsley noted that the work of a management’s expert arguably comes from the client’s perspective, not unlike information or analyses that management might prepare or produce. In addition, management takes full responsibility for the work of any expert management might use to assist in preparing financial statements or reports. Therefore, the work of a management’s expert is just part of the overall information from management that the PA considers when providing any professional service.

Mr. Siong further noted that the Code already contains guidance with respect to using the work of others, and that the Task Force could consider whether this might be a point to be explained in non-authoritative material after the standards are finalized.

- To clarify that once a PA re-evaluates an external expert’s CCO, the PA has to conclude again on whether the external expert has the necessary CCO.

### *Using the Work of Multiple Experts*

- It is unclear why using the work of multiple external experts creates an issue and an additional self-interest threat if each expert has been properly evaluated and the PA has concluded that they have the necessary CCO. An IESBA member further observed that it is not uncommon to use multiple experts or for any expert's work to constitute a large or dominant portion of the professional service, such as the valuation of oil and gas reserves in the extraction industry.

Ms. Endsley noted that the heart of what the provision was trying to address is was undue reliance on the work of multiple external experts. The consequence of such undue reliance is that it would be questionable whether the PA could still reasonably hold ultimate accountability for the service (in substance), and importantly, whether the PA even has the competencies required to hold such accountability.

### *Inherent Limitations in Evaluating an External Expert's Competence, Capabilities and Objectivity*

- A view that the second sentence of the provision seems to imply that the external expert's work can still be used, even if there is a lack of information to evaluate their CCO. It was observed that this paragraph is inconsistent with the prohibition to use the work of an external expert.

### *Examples of Work Undertaken by an External Expert*

- With respect to the example on the "assessment of forward-looking information about the decarbonization plans of an entity," a few IESBA members viewed that it seemed to encroach on management's responsibility for business strategy. Mr. Siong noted that this is merely an example of work that an external expert might be engaged to do and is not intended to suggest any assumption of management responsibility by the PA or the PA's external expert.

### *Section 290*

- A suggestion to consider acknowledging within Section 290 that a PA in business must operate within the employing organization's policies and procedures in relation to engaging an external expert.

### *PIOB OBSERVER'S REMARKS*

Ms. van Diggelen noted the Task Force's analysis of the ED respondents' comments and added that the Task Force's proposed revisions addressed most of the concerns raised by respondents.

She questioned whether it would be possible for a PA to continue the evaluation of the external expert's CCO indefinitely, allowing the PA the possibility to "overlook" issues with the expert's CCO. Ms. Endsley noted that ultimately, before the work of an external expert can be used, the PA must conclude that the external expert has the necessary CCO.

Finally, Ms. van Diggelen encouraged the Task Force to review the proposed provisions from a "requirements only" perspective before finalizing the provisions, and to assess the requirements against the Public Interest Framework.

### *WAY FORWARD*

The IESBA will review a revised draft of the proposed standards at its November 2024 meeting.

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

Mr. Reid and Ms. Viljoen summarized the Project Team's research on CIVs and Investment Company Complexes (ICCs), highlighting the importance of the following:

- Understanding the diverse structural and regulatory frameworks in which CIVs operate.
- Differentiating service providers from day-to-day decision-makers.
- Ensuring a consistent approach to assessing independence for relevant interests, relationships and circumstances.

In addition to the Project Team's update, Mr. Huesken explained the application of the extant Code to the assessment of "related entities" for CIVs, emphasizing the importance of auditor independence and proper use of the conceptual framework.

IESBA members generally agreed with the Project Team's analysis, which identified a potential gap in the process auditors use to assess their independence with respect to interests, relationships, or circumstances involving unrelated third parties. Among other matters, IESBA participants raised the following comments:

- Consideration should be given to conducting further research to determine whether certain unrelated parties are acting as decision-makers or assuming management responsibilities.
- The application of the conceptual framework should encompass any relationships influencing independence vis-à-vis the investment schemes. However, relying only on the conceptual framework may be inadequate.
- The Project Team should continue to explore the existence of risks or perceived risks and how different jurisdictions have dealt with these risks, which may highlight the need for a global solution if jurisdictional regulators are addressing the gap in ways that lead to fragmentation.
- Addressing a narrow gap in the Code might not be practical and could lead to unintended consequences or added complexities. Therefore, any proposals for changes to the Code should consider the relative costs and benefits.
- Any suggested changes should be principles-based, with a particular focus on consistent application.
- There would be merit in seeking out and understanding the investor perspectives on the matters being considered.

IESBA members agreed on the relevance of the management responsibility examples for assessing unrelated third-party independence but raised a few comments:

- It is imperative to distinguish between decisions that genuinely influence outcomes and those actions associated with managing or being accountable for the service. Determining whether a decision impacts the economic performance of the fund is also crucial.
- It is crucial to understand that the management responsibility examples exclude services or activities that are prohibited for an auditor, such as managing client assets. The primary focus is on ensuring that the auditor is confident that all judgements and decisions remain the sole responsibility of management.

- Consideration should be given to adopting a broader perspective by identifying who holds oversight authority and examining how substantial influence is defined. This approach will assist the team in identifying relevant relationships.

Ms. Dias congratulated the Project Team on the progress made since the June 2024 Board meeting and thanked IESBA members for their engagement.

#### PIOB OBSERVER'S REMARKS

Ms. van Diggelen highlighted the importance of grasping the specific dynamics and practical details of investment schemes to pinpoint risks extending beyond mere theoretical shortcomings.

#### WAY FORWARD

The Project Team will prepare a Consultation Paper for the Board's consideration and approval in March 2025 to gather further stakeholder feedback before the Project Team finalizes its report and recommendations to the IESBA on the proposed way forward.

### **5. Firm Culture & Governance**

Mr. Wijesinghe, Chair of the Firm Culture and Governance Working Group (FCGWG), Mr. Kwan and Ms. Vijian provided a recap of the June 2024 meeting as well as key comments received from outreach to stakeholders in Q3 [2024](#), including their support of the key themes identified from outreach conducted by the FCGWG during Q1 and Q2 2024.

Messrs. Wijesinghe and Kwan and Ms. Vijian also presented the FCGWG's preliminary views and recommendations in its Preliminary Report for the IESBA's consideration.

#### FCGWG PRELIMINARY VIEWS

IESBA members were generally supportive of the Working Group's preliminary views highlighted in its Preliminary Report.

#### *Public Interest Issues*

The IESBA supported framing ethics as a positive driver of public trust rather than viewing it as a limitation or compliance burden. Among other matters, the following comments or suggestions were also raised:

- Consideration should be given to highlighting in the Report the benefits that ethical behavior brings, such as enhanced reputation, client trust, and long-term sustainability.
- Ethics should be seen as a value proposition by the profession. It is the public trust that creates economic value for the profession.

On the growth of consulting services in firms and its impact on ethical behavior within firms, IESBA members agreed that the Report should not give the perception that such growth is unethical in itself. However, the IESBA also recognized the importance of a uniform ethical framework covering all firm services that would help address perceptions that non-assurance service lines are more focused on client satisfaction.

The IESBA also agreed that the provision of consulting or other non-assurance services can carry significant public interest, despite some services, such as strategy advisory, not being subject to the same level of regulatory oversight as audit services. Among other matters, the following comments were raised:

- There are many types of non-assurance services, such as valuation, tax advisory and forensic services, on which others place reliance and which have significant public interest. It was also observed that “bad actors” in firms who provide questionable strategy advisory services can have a significant impact on the public interest.
- The work stream relates to ethical behavior across the whole firm, which is part of the value of the profession. Firms providing different types of services cannot argue that only one part of their business needs to be ethical.
- While there is a strong stakeholder focus on audit quality, there is a real contagion risk that something goes wrong in another part of “the forest” that could undermine public trust and confidence in the whole forest.
- The Report should more clearly state the Working Group’s rationale for addressing culture and governance issues that cover all service lines of a firm.

### *Governance Framework*

Among other matters, IESBA members raised the following comments:

- On accountability:
  - Accountability is an integral part of a firm’s governance framework and should be addressed separately in the FCGWG’s report.
  - There needs to be a willingness to have more senior leaders **being** held accountable in a more visible way. However, accountability mechanisms should not be restricted to firm leadership but should be consistently applied to all personnel, from senior leadership to junior staff.
  - Accountability is also connected to education and training, as well as transparency.
- On the overall responsibility for a firm’s ethical culture:
  - Following the implementation of a governance framework that prioritizes ethical behavior, firms should also measure the success of such a framework against the objective of driving ethical behavior. Firms should collect all the necessary data to track progress over 3-4 years and whether they are heading in the right direction. In this regard, firms should be outcomes-focused.
  - These success measures, such as whether there is clear accountability or whether all staff have been assigned the appropriate training courses, can feed into a firm’s continuous improvement program that drives its ethics strategy. Firm leadership has a responsibility to continually improve the firm’s culture and overall performance from an ethics perspective.
  - Firms should also assign a person/s to be responsible for their ethical culture and continuous improvement.
- On a culture of consultation and challenge:
  - There is a need to create an environment within firms that encourages genuine dialogue and active engagement.

- It is important to have a supportive and safe environment for raising concerns, as this enables staff to speak up without fear of negative repercussions. It was noted that early identification of potential issues is crucial for proactive resolution.
- There are suggestions for the FCGWG to consider replacing the term “consultation” with other terms, such as “collaboration<sup>3</sup>” as the goal should be a two-way dialogue and engagement.
- On education and training:
  - Ethics education should prepare staff to recognize and address subtle ethical dilemmas in real-world scenarios. This preparation involves equipping staff with practical tools and frameworks that enable them to act ethically and responsibly in diverse situations.
  - There should be a focus on supporting junior staff in building their “ethical muscle” and developing a strong ethical foundation.
  - A right learning environment is important and should be linked to quality management. For audit, firms need to have good internal control so that missteps on the part of the staff can be detected before it is too late. There may be a need for firms to also develop consulting quality indicators.
  - A key focus should be on how a firm can effectively bring ethics to be top of mind for its partners and staff.
- On the role of independent non-executives (INEs):
  - It is helpful to have external and independent input to address issues such as group think.
  - The role of INEs was emphasized as being particularly important in the audit context in the UK ~~because firm partners in that jurisdiction are also the owners.~~
  - INEs must maintain independence from the firm and should not be influenced by internal pressures. There is a need for INEs to provide objective oversight and counterbalance potential conflicts of interest.

### *Key Characteristics of an Ethical Firm*

IESBA participants noted that the key characteristics of an ethical firm should not focus on policies and procedures but rather principles. There was also a suggestion for the FCGWG to consider aligning these characteristics with the key themes and key areas within the governance framework identified in the Report.

### *Role of the Code and ISQM 1<sup>3</sup>*

The IESBA discussed the importance of ensuring that the Code clearly articulates how its provisions address specific risks and gaps. A suggestion was made to connect the extant provisions directly with these issues, thereby making the Code more practical and relevant for users.

Additionally, there was a suggestion to emphasize the value of leveraging insights from a Post-Implementation Review (PIR) of the [Role and Mindset](#) project. Given that several current provisions stem from this project, a PIR would provide a deeper understanding of their impact and effectiveness.

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<sup>3</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*



A few IESBA participants also stressed the importance of linking ethics with ISQM 1 and quality management to create a cohesive governance strategy. They also highlighted the importance of coordination with the IAASB to ensure that there is interoperability with ISQM 1.

#### *Private Equity Investments in Firms*

The IESBA agreed that the FCG initiative should not focus on discussions about the various ownership structures of firms. However, the IESBA also acknowledged that it may be necessary to address certain behaviors or triggers associated with these structures in the future. This reflects a proactive approach, acknowledging that ownership structures may influence firm culture and ethical practices.

The IESBA also agreed that its Emerging Issues and Outreach Committee (EIOC) should continue to monitor the development of private equity investments in firms and the related ethical implications.

#### WORKING GROUP'S PRELIMINARY RECOMMENDATIONS

The IESBA was generally supportive of the FCGWG's preliminary recommendation to commence a standard-setting project to develop provisions that will address the leadership and governance framework matters raised in the Preliminary Report. These provisions should be principles-based, apply across all service lines, and be scalable. The IESBA also supported the recommendation to develop a series of non-authoritative materials (NAM) to complement the standard-setting project.

The IESBA discussed the different formats that the NAM could take, such as articles, thought leadership pieces and white papers. However, the IESBA agreed that releasing any NAM, such as one on the importance of ethical culture, by December 2024 would be premature. It was suggested that the IESBA should avoid committing to specific views through NAM while the project remains in progress.

On the question of whether two work streams are needed to progress the initiative in 2025, the IESBA agreed that strategic input should be sought from the Planning Committee.

#### PIOB OBSERVER'S REMARKS

Ms. van Diggelen expressed support for the work stream and the work of the FCGWG to date. She highlighted the importance of ensuring that ethics and quality permeate throughout a firm. She also emphasized the importance of having a strong linkage between ethics and quality management. Ms. van Diggelen also pointed out the importance of having an appropriate learning environment. She agreed with the Board's view on the importance of accountability within a firm's governance framework. In addition, she expressed the view that ownership structures may have certain behavioral consequences.

#### WAY FORWARD

The IESBA will consider the FCGWG's Final Report and a project proposal at its December 2024 meeting.

#### **6. PIOB Remarks**

Ms. van Diggelen thanked the Board for the privilege of attending her first meeting as PIOB Observer. She praised the diverse perspectives and collaborative discussions, which she noted were conducted in a constructive and positive atmosphere. Among other matters, she acknowledged the Board's significant progress on key projects and initiatives, particularly the Sustainability and Experts projects, and the CIVs and Firm Culture and Governance workstreams.

She acknowledged the Board's substantial progress on the Sustainability and Experts projects. She expressed confidence in the Board's ability to meet the December 2024 target of final approval of the Sustainability and Experts standards, which she emphasized will be critical standards in the public interest.

Ms. van Diggelen further recognized the foundational role of the Firm Culture and Governance work in underpinning the Code through its outcomes-oriented approach, noting that achieving such outcomes would have a significant public interest impact.

Finally, she added that she looked forward to observing the virtual Board meeting in November 2024. She concluded by encouraging the Board to continue its diligent work and offered her best wishes for success in the coming months.

## **7. Closing Remarks**

Ms. Dias thanked Ms. van Diggelen for her participation and noted the value of attending IESBA Board meetings to deepen understanding of the issues discussed. Ms. Dias praised the Board for the quality and intensity of its deliberations, describing the meeting as one of the most successful she has chaired. Among other matters, Ms. Dias commended the openness and collaboration among Board members, which she emphasized as essential to advancing the Board's work effectively. She expressed her gratitude to the staff and Technical Advisors for their exceptional support and conveyed her confidence in the Board's ability to meet its objectives.

Ms. Dias then informed the Board that the IAASB had just approved ISSA 5000. She invited Board members to join her in extending the IESBA's warmest congratulations to the IAASB for this significant achievement.

In closing, Ms. Dias conveyed the Board's deep gratitude to the AICPA for hosting the meeting at its offices. She then thanked all participants for their contributions and wished them safe travels.

## **8. Next Meetings**

The next IESBA meetings are scheduled for:

- November 8, 2024 in virtual format.
- December 2- 6, 2024, to be held in person in New York, USA.