



PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of September 2021.

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

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ONGOING PROJECTS

Definition of PIEs

Importance of the definition of PIE

The definition of PIE is crucial to determine the categories of entities that are subject to stricter requirements in the Code (and the ISAs), such as NAS and Fees.

The PIOB believes the global definition of PIE should be broad enough to capture all entities with a public interest, due to their impact on society (e.g. financial institutions, listed companies, significant utility companies), both through the global applicability of the Code of Ethics and as those defined by local regulatory and legislative bodies in their own jurisdictions. The definition should also enable consideration to be given to any other entities outside the financial sector that could pose a threat to financial stability, to ensure that the definition achieves the overarching objective and that there are no evident gaps. The PIOB notes that one of the factors considered in the ED to determine the extent of public interest of an entity is “the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity”.

The PIOB also notes the overarching objective proposed by IESBA that reflects the “significant public interest in the financial condition” of these entities and that the purpose of having differential requirements is to “meet the heightened expectations of stakeholders”, “thereby enhancing stakeholders’ confidence in the entity’s financial statements that can be used when assessing the entity’s financial condition”.

The PIOB welcomes the approach followed by IESBA setting a broad approach to defining PIEs, with an extended list of factors that help define these entities and an expanded list of entities categorized as PIEs within the Code. This list could then be further refined by local regulatory bodies and expanded by audit firms, if applicable. The PIOB agrees that this approach allows to consider scalability and may facilitate consistent application across different jurisdictions.

Definition of PIEs

Categories of PIEs

The PIOB notes the concerns raised by some stakeholders in response to the ED about whether the broad approach should include all of the proposed categories of PIEs, in particular pension funds and collective investment vehicles. The PIOB acknowledges IESBA’s assessment of stakeholder concerns including potential implementation issues, and that these categories would need to be further refined or clarified to address the concerns. However, removal of both of these categories would not be consistent with the qualitative characteristics of PIE underlined in the ED. These entities, even when they are small in size, can generate significant interest in their financial condition given that they exercise fiduciary responsibilities of the general public or a limited group of investors and pensioners, can have a significant systemic impact in the economy due to the nature of their business, and are in many jurisdictions regulated or subject to supervision (all of which are factors included in proposed para. 400.8 of the Code to consider an entity as a PIE).

In addition, it remains important to consider the expected role of local regulatory bodies to further refine the definition taking into account specific characteristics of the entities in their own jurisdictions.

The PIOB encourages the IESBA to better understand the categories of pension plans and collective investment vehicles and determine whether, and to what extent, they meet the characteristics of PIEs such that they merit retention in the list of categories. Further, it would be helpful to carry out an assessment of the risks associated with their exclusion from the list and any mitigating safeguards, as well as an evaluation of implementability challenges. The analysis should be supported by data that provides robust evidence to make a decision having due regard for the public interest.

Transparency needed on the entities treated as PIEs

Transparency is key to ensure there is certainty for the users of the audit report and financial statements on the rules applied to an entity and to achieve enhanced confidence in the audit of PIEs. The PIOB welcomes the proposed provision in the Code that requires firms to disclose when a firm has applied the independence requirements of PIEs and urges both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users. The PIOB notes that the options for achieving this include disclosure in the auditor report.

Coordination with the IAASB

The PIOB notes the coordination between the IESBA and the IAASB, which is of critical importance to ensure alignment of the ISAs and Quality Management standards with the Code of Ethics and the application of the two sets of standards consistently.

Technology

The use and impacts of technology is one of the most important issues the profession will face in the current decade. The pervasive nature of technology, and its broad and exponentially growing use, pose significant ethical challenges which it is in the public interest for the IESBA to address in a comprehensive and timely manner. COVID-19 effects and the accelerated adoption and development of technology are additional reasons for urgency.

The PIOB appreciates the extensive and careful work done to date on the topic. It welcomes the IESBA's establishment of a Technology Working Group (TWG) which will focus on developing non-authoritative guidance and gathering of information, to complement the ongoing work of the Technology Task Force (TTF) which will focus on the preparation of Code changes.

The need for an ethical framework for the understanding and use of technology

The PIOB welcomes the IESBA's consideration of the ethical implications of a professional accountant (PA) using, or encouraging their clients to use, technology which may be more complex than the PA can understand, or about which they have insufficient knowledge to comply with the fundamental principles of the Code. Whether the IESBA addresses this in a specific or a holistic manner (or a combination of both), it is important that the Code signals clearly the level of competency, and the nature of professional judgement, that are needed to ensure an ethical approach.

It is similarly in the public interest for the IESBA to address within the Code, and supported where appropriate by guidance, how to evaluate ethical threats and biases when audit practitioners and firms use automation and artificial intelligence to perform audit procedures.

Independence issues and NAS

The PIOB appreciates the Task Force's proposal to consider the offering of new tools and services by audit firms (through sale or license to audit clients) as potential non-assurance services and, as such, subject to independence requirements in the NAS section (600) in the Code (assessment of threats and prohibition to provide those services).

The PIOB also notes and supports the proposed strengthened requirements in the Code, related to an additional prohibition to provide IT systems services that involve hosting services to audit clients as they result in the assumption of management responsibility. Other IT services would be subject to the NAS provisions that prohibit

Technology

providing services that might create a self-review threat when the client is a PIE.

Effective co-ordination of effort is important for timely progress

Co-ordination between the TWG and the TTF will be critically important to the IESBA's responsiveness on this issue. While the PIOB acknowledges the reasons for the IESBA's decision to defer the approval of an Exposure Draft of Code changes until December 2021, timely progress remains a critical matter of public interest.

The PIOB acknowledges that, in the immediate term, the TWG will focus on providing guidance on topics of immediate interest and concern, recognising that some topics have aspects of deep complexity and detail which it is not appropriate for the Code itself to address. But it also notes that the resources needed to develop those materials should not be at the expense of those needed to progress the Code changes themselves, in particular those concerning issues of complexity and independence, in accordance with the revised timetable.

External engagement needs to be broadened

A critical factor in ensuring responsiveness to the public interest is the nature and extent of stakeholder engagement. The surveys conducted by the TTF in 2020 ("Technology and complexity in the professional environment" and "The impact of technology on auditor independence") show an imbalance in the input received, where the majority of respondents belong to the audit profession and there is a very low level of participation from investors, regulators and other stakeholders.

It is essential to obtain views from a broader and more complete group of stakeholders. To achieve this, the PIOB recommends the IESBA to conduct further, and if necessary targeted, outreach with the user community (including investors), regulators, corporates (including Those Charged With Governance), technology providers and data science experts, and non-financial standard setters.

The PIOB notes the proposed establishment of a Technology Advisory Committee in connection with the TWG, which brings an opportunity to obtain relevant and timely input from external experts and National Standard Setters in an area that is in constant development. It will be important for the Committee to have a sufficiently broad range of participants and a clear remit.

Working with other projects and the IAASB

The pervasive nature of the technological challenges also raises the need for broader co-ordination, including with other IESBA projects (such as Tax Planning) and the IAASB.

Engagement Team and Group audits

Definition of Engagement Team and opportunity for the IESBA to strengthen independence requirements in the Code

The PIOB welcomes the coordination efforts between IESBA and IAASB to align and simplify the definitions of Engagement Team in the Code.

The interaction of multiple definitions, individuals with different characteristics, consideration of entities as PIEs or non-PIEs, related entities and component auditors, requires careful consideration as it may have consequences on auditors' and firms' independence.

The PIOB encourages IESBA to take the opportunity not only to improve the definitions in the Code, but to strengthen independence requirements around component auditors outside the network and the associated responsibilities of the group engagement partner. However, the interactions of multiple definitions, individuals with different characteristics, consideration of entities as PIE or not, related entities and components can add unnecessary complexity to the provisions. Despite that, the standard needs to be clear and understandable to be in the public interest. Implementation guidance may be necessary to ensure consistent application of the provisions.

See additional comments below related to the independence of external experts.

Ultimate responsibility for the group audit and effective coordination with component auditors in relation to independence

The PIOB notes the importance of enhanced communication within the group engagement team and confirmation of the group engagement partner's ultimate responsibility in respect of independence matters. New Code provisions in this area would be a positive step forward in the project. In particular, the coordination of the proposals in the Code and those of ISA 600 requiring: a) strong communication within the group engagement team, particularly between component auditors and the group engagement partner; and b) clarity about the group engagement partner's responsibilities, will create consistency, in line with the PIOB's recommendations in relation to the revision of ISA 600, Group Audits.

Tax planning and related services

Given the emphasis across the globe on matters relating to tax, tax avoidance and social responsibility in respect of tax practices, as well as concerns raised by many stakeholders on these topics, the PIOB welcomes the IESBA's willingness to take a leadership role approving a project proposal to develop ethical provisions and

Tax planning and related services

associated guidance for PAs (both in public practice and in business) undertaking tax planning and related services.

[New] Key Public interest outcomes

The PIOB welcomes and supports the public interest outcomes identified by IESBA for this project, as well as the challenges that will be faced. Most notably the PIOB highlights the following as key public interest issues:

- Promoting consistent ethical behavior of PAs providing tax planning services
- Raising the awareness of risks associated with unacceptable tax planning
- Promoting sustainability principles, including transparency

Achieving consistent ethical behavior of PAs in relation to tax planning is a critical outcome and sets high expectations for the profession. The Code can provide an ethical framework for PAs to determine how to identify threats, apply adequate safeguards and report, as needed, when providing tax related services, as well as develop relevant practical guidance on how to apply this framework in particular circumstances. This would be a welcome outcome in the public interest.

[New] Global diversity in relation to tax regulation, practices and cultural perceptions

Regulatory, professional tax practice and cultural diversity across the globe could make achieving the public interest outcome above very challenging, in particular reaching broad agreement in terms of terminology, identification of threats and ultimately achieving consistent ethical behavior of PAs providing tax planning services. IESBA should remain cautious and aware of these challenges to ensure that guidance sets high expectations on the behavior of PAs, as demanded by stakeholders and society at large.

Furthermore, the global diversity and multiple players involved in tax related services adds complexity to this project. The PIOB expects that the IESBA will focus on meeting the timeline developed for the project that reflects the milestones it intends to achieve and the urgency given to the topic.

[New] Broad external engagement with relevant stakeholders

The IESBA should ensure that sufficient outreach throughout all phases of development of the project is carried out with a broad range of stakeholders, beyond the accounting profession, such as investors, national standard setters, OECD, tax authorities, and lawyers/other professionals providing tax services to ensure that existing initiatives and experience are leveraged and their views are adequately taken into account.

OTHER PUBLIC INTEREST ISSUES (NO PROJECT ONGOING)

External Experts

Need to consider the independence of experts outside the engagement team

External experts are explicitly excluded from the definition of Engagement Team both in the IAASB standards (ISQM1 as in ISA 220 (revised)) and in the proposed definition of the Code (which is expected to be aligned with ISQM1). As a result, these individuals are not subject to independence requirements of the Code.

Given the growing involvement of experts in areas such as estimates and technology, it is in the public interest to assess whether the nature of their work and contribution to the audit opinion requires further independence requirements, similar to other individuals that are part of the engagement team.

As this matter is out of the scope of the current IESBA project on Engagement Team definition and Group audits (see further comments above), the PIOB recommends IESBA and IAASB to consider this issue in the Code and through a revision of ISA 620, *External experts* when next considering the Boards' strategies and work plans.

Audit Firms Business Model

Audit Firms' Business Model may be a barrier to auditor independence and Audit Quality

The audit firm business model can be seen as a barrier to independence, to the effective implementation of Professional Skepticism, and to audit quality.

The approach in the NAS and Fees projects introduces safeguards to address threats to independence, including express prohibitions of certain services, an explicit role of those charged with governance and transparency provisions for fees and fee dependency.

Audit Firms Business Model

Recognizing that the business model is a complex issue and that ethical issues are just one aspect of it, ongoing coordination with the IAASB and other stakeholders is encouraged to continue to identify ways to address the topic from a holistic point of view.

[New] Assurance of non-financial information

Take leadership role in developing ethical guidance for challenges that arise in assurance of non-financial reporting

Reporting on non-financial information (NFI), including on sustainability and ESG reporting, is gaining momentum globally and the assurance of this information will be critical to give confidence to its users about whether the reported information is free from material misstatement.

Along with diverse initiatives in the sustainability and ESG reporting space (including in relation to climate change impacts), the IESBA, together with IAASB, should take a leadership role to identify key ethical and independence challenges that arise from these services and provide guidance to professional accountants on how to navigate them.