



PIOB's Public Interest issues: IESBA projects

The PIOB's recommendations are based on the proposals discussed by the IESBA as of ~~October~~December 2020.

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

Update of this document: ~~October 19th, 2020~~January 25, 2021

PROJECTS APPROVED BY IESBA IN DECEMBER 2020 (PENDING APPROVAL BY PIOB)

Non-Assurance Services (NAS)

~~The PIOB expects a significant~~Significant revision of ~~the provision of~~ NAS ~~expected~~, ultimately addressing independence issues

The PIOB ~~expects a significant~~welcomes the revision of the provision of NAS to address independence issues.

~~The~~In particular, the PIOB welcomes the ~~current~~final IESBA ~~proposals~~provisions to prohibit firms and network firms from providing NAS to audit clients that are PIEs "if ~~there is [risk/possibility]~~ the provision of that ~~the provision of that non-assurance~~ service ~~will~~might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion". The ~~proposal to elevate~~provision that elevates to a requirement the assessment of a self-review threat strengthens these provisions.

The PIOB also welcomes the ~~strengthening of the~~ prohibition for audit firms and networks to provide certain NAS, such as bookkeeping and accounting services, to audit clients which are PIEs, ~~without further assessment of the creation of a self-review threat. Exceptions are no longer allowed. The PIOB notes the exceptions established to address specific and practical issues, which allow firms and networks to prepare statutory financial statements for a related entity of the PIE, under very limited and precise circumstances.~~

The requirement for audit firms to obtain agreement from those charged with governance (TCWG) before providing NAS to audit clients that are PIEs is a ~~necessary~~an appropriate measure, responsive to PIOB's suggestions.

Non-Assurance Services (NAS)

~~The final text approved by the IESBA needs, clarifying the application of the requirement to consider the comments that stricter the audit client and its related entities, improves the understandability of the Code.~~

~~As NAS provisions for PIEs are already applicable in several vary across jurisdictions, including where NAS provided to PIEs are prohibited in all instances; and that a Code that is less strict in respect of NAS, the IESBA could use the Benchmarking initiative to compare the independence requirements than current regulation in many in major jurisdictions with the new NAS provisions, to assess whether the Code would risk becoming redundant and would hinder global adoption and comparability be still robust.~~

Assessment of threats for NAS provided to related entities of PIEs

~~The provisions Consistent with previous PIOB comments on this project, the self-review threat prohibition and the requirements related to communication with those charged with governance in relation to to TCWG when providing NAS provided to related entities of a PIE need to be clearly addressed in the Code, either by the NAS or Fees TFs, and applied consistently to all PIEs (whether listed or not) to achieve certainty audit client have been clarified.~~

Sufficiency of certain safeguards that involve using other teams or appropriate reviewers

IESBA should consider the sufficiency and effectiveness of using professionals that are not members of the audit team to perform NAS or appropriate reviewers not involved in the engagement as a safeguard to address threats arising from the provision of NAS. It should also consider whether additional safeguards and alternatives can be applied whenever an appropriate reviewer is not a safeguard available or not scalable (e.g. in SMPs there may not be sufficient staff available).

~~The PIOB notes the IESBA conclusion that safeguards in the Code are sufficient and encourages it to monitor the implementation of the provisions and to assess whether they should be reviewed in the future.~~

Provisions on Tax Services, within NAS, ~~should be reviewed~~

The initial proposals, within the NAS provisions, set the bar too low in allowing tax services.

The PIOB requested a revision of the text in R 604.4, which could have unintended consequences and be read as promoting aggressive tax planning rather than reasonable conservatism as expected from the audit profession. The IESBA revised and enhanced the text.

~~Nevertheless, the~~The threshold used to determine whether the provision of tax services is allowable (i.e. ~~“the firm is confident that~~ the proposed treatment has a

Non-Assurance Services (NAS)

~~bases~~basis in applicable tax law ~~and/or~~ regulation that is ~~{likely} or {more likely than not}~~ to prevail”) ~~-should set a high standard that is clear and~~ provides certaintymore clarity.

Fees

Potential impact of fee levels and their significance on auditor independence

As shown in several studies, the share of revenue from consulting services is increasing in relation to audit. Accountancy firms may devote fewer and lower quality resources to audit activities. The relative level of fees in audit and in consulting, as well as overall revenues, should be considered from the perspective of ensuring high quality audits. The PIOB welcomes the revisions to the fee provisions in the Code to address the potential impact of fee levels on auditor’s independence and on audit quality.

For audit clients that are PIEs, the PIOB acknowledges the requirement for audit firms to communicate fees to ~~Those Charged With Governancethose charged with governance~~ (TCWG) and to disclose fee-related information publicly. Transparency is fundamental to ~~protect the public interest and to~~ provide clarity and robust information for decision making on the assessment of independence.

On fee dependency from a client, the ~~proposed changes~~final provisions require firms to disclose to TCWG whether the total fees from a PIE audit client exceed the threshold of 15% of the total fees received by the audit firm. The PIOB notes the requirement of ending the audit engagement if the total fees from a PIE audit client exceed the threshold of 15% for five consecutive years, subject to some limited exceptions for compelling reasons. These provisions set strict guidelines that are enforceable and can be applied consistently.

Sufficiency of appropriate reviewer safeguard

The PIOB recommended the IESBA ~~should~~to consider revisiting the sufficiency and effectiveness of having one appropriate reviewer not involved in the engagement as a safeguard to address threats arising from fee dependency and whether additional safeguards and alternatives can be applied whenever the appropriate reviewer is not a safeguard available or not scalable (e.g. in SMPs there may not be sufficient staff available).

The PIOB notes the IESBA conclusion that safeguards in the Code are sufficient and encourages it to monitor the implementation of the provisions and to assess whether they should be reviewed in the future.

Fees

Enforceability and clarity of language

The PIOB encouraged IESBA ~~should consider~~ to clarify certain terms used in the ~~ED~~ fee provisions of the Code, such as “large proportion of fees”, “significance”, etc., even if some of these terms have been used previously in other sections of the Code, as they may not be clear or precise enough in the current context.

The ~~clarification~~ PIOB also noted the exceptions added to the disclosure of fee-related information to TCWG and to the public in certain circumstances. These exceptions add complexity, potentially giving rise to confusion, hindering understandability and risking inconsistency in application. The PIOB acknowledges the rationale and the conclusion reached by IESBA that these exceptions are necessary to provide for disclosure that is relevant to the firm’s independence and intend minimizing duplication.

The PIOB continues to encourage IESBA to use clear and enforceable terminology in the Code in future projects, minimizing the use of exceptions, in line with the Public Interest Framework. Clarity, conciseness, and simplicity would help ensuring more consistency in the application of the provisions—and enable, making the Code more robust and enabling enforceability.

ONGOING PROJECTS

Definition of PIEs

Importance of the definition of PIE ~~and coordination with the IAASB~~

The definition of PIE is crucial to determine the categories of entities that are subject to stricter provisions in the Code- (and the ISAs). It affects important projects such as NAS and Fees.

~~Coordination with the IAASB is sought, to align the ISAs with the Code of Ethics and apply the two sets of standards consistently.~~

~~The~~ The PIOB believes the definition of PIE should include all entities with a public interest, due to their impact on society (e.g. financial institutions, listed companies, significant utility companies), as well as those defined as PIEs by national regulators in their own jurisdictions, to ensure the global applicability of the Code of Ethics. Consideration should be given to any other entities outside the financial sector that could pose a threat to financial stability, to ensure that

Definition of PIEs

the proposed list achieves the overarching objective and that there are no evident gaps.

The PIOB 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 enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements”.

The PIOB also welcomes the approach followed by IESBA setting a broad definition of 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 would 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 application in different jurisdictions.

[New] 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, as well as the public in general, on the rules applied to an entity and to achieve enhanced confidence in the audit of PIEs. The PIOB welcomes the provision in the Code that requires firms to disclose the treatment of entities as PIE and urges both the IAASB and IESBA to ensure this transparency is achieved in a manner that is readily accessible for users. This could be achieved through disclosure in the audit report.

Coordination with the IAASB

Coordination with the IAASB is of critical importance to ensure alignment of the ISAs with the Code of Ethics and the application of the two sets of standards consistently.

[New] The PIOB acknowledges that a case-by-case assessment would need to be made by the IAASB to ensure that replacing “listed entities” with “PIEs” in the current ISAs and QMS does not create unintended consequences. However, continuing to limit the additional requirements in the ISAs to only a subset of entities, such as “listed entities” or the finally agreed term (such as “publicly traded entities”), should be explicitly justified, providing an explanation on why it would not be appropriate to apply the differential requirements to all PIEs.

Objectivity of Engagement Quality Reviewers and Other Appropriate Reviewers

~~Clarify interaction of cooling-off period addressing Objectivity of the Engagement Quality Reviewer with cooling-off in Long Association provisions (Section 540)~~

~~The IESBA should clarify that the cooling-off period addressing threats to objectivity of an Engagement Partner (EP), when moving to the role of an Engagement Quality Reviewer (EQR), is different from and does not substitute the cooling-off period required in the Long Association provisions (Section 540) addressing independence and familiarity threats from an audit client.~~

~~In addition, Section 540 should explicitly explain the implications of the cooling-off period addressing threats to Objectivity on the 7 year “time-on” allowed with an audit client. Restrictions on the different Key Audit Partners’ roles allowed during that time of service should be clarified. For instance, an Engagement Partner who has served for five years will not be able to become Engagement Quality Reviewer during the remaining “time-on” period, after which he or she will be also affected by the cooling-off period set in Section 540.~~

~~The PIOB welcomes the revisions and the guidance included in the final revisions to the Code, clarifying that the cooling-off in ISQM2 is distinct and does not modify partner rotation requirements in Section 540 of the Code and vice versa. The PIOB also acknowledges the proposal to issue FAQ with further examples and clarification on the interplay between the two types of cooling-off.~~

Cooling-off requirements should be explicit in the Code of Ethics

~~Identifying threats to Objectivity of the Engagement Quality Reviewer and applying safeguards to address those threats are ethical matters that should be dealt with comprehensively within the Code of Ethics.~~

~~While the Code should remain principles-based whenever possible, certain significant matters that impact the public interest may require more prescriptiveness. An extant example is the cooling-off period included in Long Association in the Code. The requirement of a cooling-off period for an EP that moves to an EQR role, currently proposed to be included only in ISQM2, is a significant requirement that should be established as a requirement within the Code to ensure consistency of both sets of standards (ISAs and the Code) and within the Code.~~

~~Scalability of these requirements should be duly taken into account and, in particular, the implications on the applicability by Small and Medium Practice (SMPs) firms.~~

~~Objectivity of Engagement Quality Reviewers and Other Appropriate Reviewers~~

~~The PIOB acknowledges the guidance included in Section 325 of the Code with a cross-reference to ISQM2 and explicitly recognizing that the cooling-off serves a dual-compliance purpose, with ethical principles and quality management requirements. While this additional guidance may not entirely meet the concerns raised by the PIOB, it adds clarity and enhances the new provisions in the Code and enables users to better comply with the Conceptual Framework in respect of threats to Objectivity of the EQR.~~

~~Coordination needed between IESBA and IAASB in relation to scope of application of a cooling-off requirement~~

~~The scope of the cooling-off requirement in ISQM2 should be fully aligned with the Code of Ethics, especially in relation to applicability to PIEs vs. other types of entities (e.g. listed entities). The PIOB acknowledges the coordination between IESBA and IAASB in developing this project. However, further coordination should be sought to ensure that there is consistent application of requirements across the universe of entities.~~

~~Given the different level of adoption of ISAs vs. the Code, the implications on the application of the requirements to different types of entities should be carefully considered.~~

~~The PIOB acknowledges that the scope of application of the two sets of standards will be assessed once the PIE definition project is completed (see above for further comments on the PIE definition project).~~

~~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 current approach in the NAS and Fees projects does not challenge the concept of multidisciplinary audit firms.~~

~~Recognizing that the business model is a complex issue and that ethical issues are just one aspect of it, the PIOB recommends considering this issue while advancing other projects (NAS, Fees). Continued coordination with the IAASB and other stakeholders is encouraged to identify ways to address the topic.~~

Technology

Ethical implications of Artificial Intelligence (AI)

As a consequence of the increased use of technology by larger firms and the lack of guidance, it is in the public interest for the IESBA to develop guidance and create a framework for evaluating ethical issues and biases when the firms use automation and artificial intelligence to perform audit procedures.

The PIOB appreciates the consideration given by the IESBA to developing guidance on ethical issues when audit firms use technology and encourages IESBA to address the relevant issues on a timely basis.

[New] Technology and NAS provided by audit firms and application of independence requirements

The PIOB appreciates the discussion on new tools and services offered by audit firms which may fall under the NAS section (600) in the Code. The consideration by IESBA of whether some NAS “might be performed by individuals within the firm, by technology owned by the firm, by technology sold or licensed by the firm to the client, or a combination thereof” may be relevant as the nature of these services determines the application of independence requirements (assessment of threats and prohibition to provide those services).

The PIOB will be following up on the conclusions reached by the IESBA and the impact they will have on the provisions of the Code.

Engagement Team and Group audits

[New] 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

Engagement Team and Group audits

component auditors outside the network and the associated responsibilities of the group engagement partner. However, 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.

Tax planning and related services

[New] Tax planning and related services project should be advanced

The revision of consequences of unethical tax planning and related services has seen little progress in the current year. The PIOB expects that this project is advanced in the coming year given the impact of these activities that may result in tax avoidance and the relevant concerns raised by many stakeholders and the society at large.

OTHER PUBLIC INTEREST ISSUES (NO PROJECT ONGOING)

External Experts

[New] Need to consider the independence of experts outside the engagement team

External experts are explicitly excluded from the definition of Engagement Team (ET) 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 ET.

As this matter is out of the scope of the current IESBA project on Engagement Team definition and Group audits, the PIOB urges IESBA and IAASB to consider this issue in the Code and/or through a revision of ISA 620, *External experts*.

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 but does not challenge the concept of multidisciplinary audit firms.

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