

IESBA Strategy Survey 2022

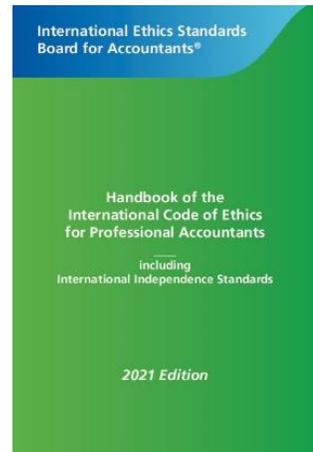


Survey on the IESBA's Future Strategy and Work Plan

About the IESBA

The [International Ethics Standards Board for Accountants](#) (IESBA) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants (PAs), thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).



About the Survey

This survey seeks views from stakeholders on key environmental trends, developments or issues the IESBA should consider as it begins the process of developing its next Strategy and Work Plan (SWP) for the period 2024 – 2027.

This survey comprises three sections:

[Section A – Demographic information about the respondents](#)

[Section B – Strategic direction and priorities](#)

[Section C – Possible future standards-related projects or initiatives](#)

Respondents are asked to provide views or suggestions in response to the questions in Sections B and C. If a respondent has no response to a particular question, the respondent may skip that question. Respondents' submissions will be made available on the IESBA's website after the close of the survey.

This survey is the first step in the IESBA seeking input from its stakeholders as part of the due process for developing its SWP. Following a full review of the input received, the IESBA will develop a consultation paper on its SWP 2024-2027, including its proposed strategic themes, priorities and work plan.



The IESBA anticipates approving the SWP consultation paper for public comment in Q1 2023. Respondents will have an opportunity to comment on a full description of the IESBA's proposed strategic direction and future work plan when it issues its SWP consultation paper.

Responses to the survey are requested by Friday, July 8, 2022.

Section A: Demographic Information

Personal and organizational information

Your name: Liezel du Preez

Your Organization (if applicable): Independent Regulatory Board for Auditors (IRBA)

Your role: Professional Manager: Standards

Email address: ldupreez@irba.co.za

Stakeholder Group

Please specify the stakeholder you/your organization represents

- Academia
- Accounting/Audit firm or network
- Audit oversight body
- IFAC member body or other professional accountancy organization
- Investor or analyst
- National standard setter
- Other users of financial statements/Environmental, Social and Governance (ESG) information (e.g., customer, creditor/supplier, lender), please specify: _____
- Preparer of financial statements/ESG information
- Firm (other than an accounting/audit firm) that provides assurance on ESG information
- Public sector
- Regulator
- Those charged with governance
- Other, please specify: _____

Geographical location

Please specify the geographical region where you or your organization is based:

- Global
- Africa-Middle East
- Asia
- Oceania
- Europe
- Latin America
- North America

Section B: Strategic Direction and Priorities

BACKGROUND

In the aftermath of the global financial crisis of 2008-2009, public expectations rose significantly for more robust regulatory supervision and oversight of, and a higher bar of ethical behavior for, financial and corporate professionals alike.

In response to those heightened expectations, the IESBA took steps to significantly strengthen the Code through the release of the revised and restructured Code in 2018. The revisions, amongst other matters, enhanced the conceptual framework for identifying, evaluating and addressing threats to compliance with the fundamental ethical principles and, where applicable, to independence, including the safeguards-related provisions of the Code; strengthened the provisions relating to inducements; introduced a new standard on addressing pressure to breach the fundamental principles; strengthened the independence standard addressing long association of audit firm personnel with an audit client; and introduced a new standard on responding to non-compliance with laws and regulations (NOCLAR). At the same time, the IESBA took decisive action to restructure the Code to enhance its usability and accessibility.

With the revised and restructured Code in place, the IESBA released its current [SWP](#) (2019-2023) in April 2019, setting out three strategic themes:

Working to advance these three strategic themes, the IESBA continued to place a high priority on strengthening the International Independence Standards (IIS). So far, within this strategy period, the IESBA has issued revised standards containing strengthened provisions addressing the permissibility of [non-assurance services](#) (NAS) to audit clients, and [fee-related matters](#). These enhanced

provisions focus particularly on public interest entities (PIEs) in light of stakeholders' heightened expectations regarding independence with respect to the audits of the financial statements of these entities. At the same time, responding to stakeholder concerns about the need to ensure that the appropriate entities are scoped in as PIEs and working closely with the International Auditing and Assurance Standards Board (IAASB), the IESBA also recently finalized an expanded definition of a PIE to include more mandatory categories of entities as PIEs. These projects were supported by the vast majority of stakeholders, recognizing that they addressed a number of important issues in the public interest.

Since the release of the restructured Code in 2018, the IESBA has also worked closely with the International Federation of Accountants (IFAC) to promote adoption and implementation of the Code through various activities including the publication of awareness-raising materials, global webinars and outreach to stakeholders. To coincide with the effective date of the restructured Code and to make the Code even more accessible and easier to navigate, the IESBA launched the eCode in 2019 in collaboration with IFAC. The eCode is now part of the electronic International Standards ([eIS](#)) platform developed by IFAC.

IESBA SWP 2019-2023 STRATEGIC THEMES

Advancing the Code's Relevance and Impact through (i) maintaining a global Code fit for purpose in the evolving environment; and (ii) further raising the

Deepening and Expanding the Code's Influence through increasing global adoption and effective implementation of the Code

Expanding the IESBA's Perspectives and Inputs through proactively engaging and seeking cooperative avenues with stakeholders

As the IESBA begins to contemplate its strategic direction for the new SWP and develops the next cycle's work plan, it will take into account the new organizational structure, governance and processes that will be implemented for both the IESBA and the IAASB over the next few years as a result of the Monitoring Group's (MG) July 2020 recommendations, [*Strengthening the International Audit and Ethics Standard-Setting System*](#).



The MG recommendations aim to support and enhance the development of high-quality auditing and ethics standards by the two Standard Setting Boards (SSBs) through the achievement of a multi-stakeholder structure, reinforcement of public interest considerations within the standards development process, and enhanced responsiveness to an accelerating pace of change.

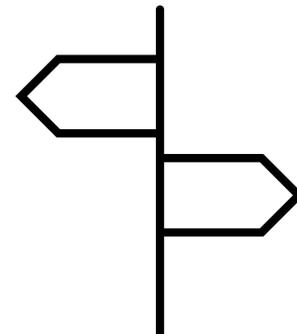
The MG recommendations also reinforce the importance of close coordination between the IESBA and the IAASB on topics within their respective strategic work plans that are of mutual interest. With this in mind, the IESBA is proposing to align the period of its next SWP with that of the IAASB's next SWP, i.e., the four-year period 2024-2027. Within their agreed framework of coordination, the two SSBs will also work closely to identify future projects or work streams that address topics or issues that overlap their standard-setting remits. Such coordination will enable the IESBA and the IAASB to deliver global standards that are consistent with each other and interoperable.

POTENTIAL STRATEGIC FOCUS AREAS

The IESBA will prioritize a range of longer-term and shorter-term projects or initiatives that it believes would best support the strategic themes for its next SWP, balancing factors such as the benefits to the public interest, the pervasiveness of the particular matters, global operability and relevance, the degree of urgency and resources available. During the strategy period, the IESBA will also consider whether any new developments in the external environment, or issues arising from existing work streams or identified by the Public Interest Oversight Board (PIOB) or stakeholders, call for a reassessment of its strategic priorities.

For purposes of this survey, the IESBA is seeking stakeholders' views on the following four broad strategic focus areas that may help guide the IESBA in setting the direction and priorities for its new SWP 2024-2027:

1. [Responding to developments relating to reporting and assurance of sustainability information](#)
2. [Raising the bar of ethical behavior for professional accountants in business](#)
3. [Strengthening independence standards for audit engagements](#)
4. [Promoting timely adoption and effective implementation of the Code](#)



1. Responding to developments relating to reporting and assurance of sustainability information

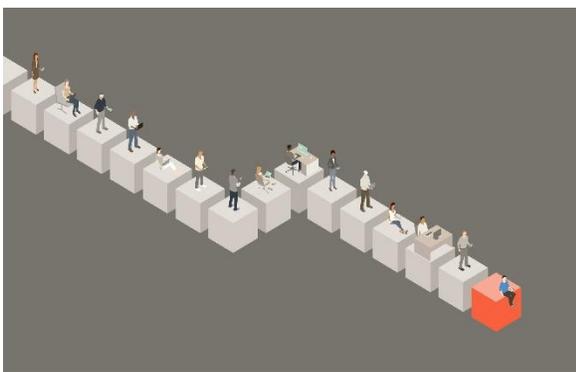
Backdrop

Over the last few years, financial markets have seen an accelerated growth in the disclosure of sustainability information driven largely by a major shift in investors' capital allocation to businesses perceived as more sustainable, viewed through the environmental, social and governance (ESG) prism. Along with the market demand for more sustainability data, there has been an increasing call for assurance to be provided on such information. Regulators in a number of major jurisdictions are prioritizing as a matter of urgency the development of new regulations governing sustainability disclosures and assurance thereon. Further, in November 2021, the IFRS Foundation established the new International Sustainability Standards Board (ISSB) to develop IFRS Sustainability Disclosure Standards. On March 31, 2022, the ISSB issued its first two proposed standards, one setting out [general sustainability-related disclosure requirements](#), and the other specifying [climate-related disclosure requirements](#).

These developments respond to a rapidly evolving landscape where there is a high degree of fragmentation and inconsistency in terms of frameworks and standards for sustainability reporting, levels of assurance provided and who is engaged to provide such assurance.¹ As market demand for sustainability information continues to expand rapidly, there is a pressing public interest need to ensure that such information is reliable and comparable, and therefore subject to assurance.

Role of the Accountancy Profession

The accountancy profession stands to play a major role in the sustainability reporting supply chain and the provision of assurance on sustainability information. The profession brings to this domain its wide and deep competencies in the preparation and presentation of information and the provision of assurance thereon. Most importantly, public trust in the profession in those crucial roles for sustainability is underpinned by the robust and global ethics standards by which it must abide.



Starting with the sustainability reporting supply chain, the IESBA believes it is essential that it gathers a full understanding of the various roles and responsibilities of professional accountants in business (PAIBs) in this supply chain. This understanding will inform a thorough assessment of whether Part 2 of the Code, which sets out provisions specific to PAIBs, remains comprehensive, adequate and fit-for-purpose with regards to sustainability reporting. As a case in point, while the role of a CFO can be expected to draw on a PAIB's skills and expertise in financial reporting or

management accounting, it may also be evolving rapidly into a more dynamic, more complex "mission control" role requiring orchestration, coordination and oversight of the information supply lines across the multi-disciplinary and interconnected ESG ecosystem.

¹ See [The State of Play in Sustainability Assurance](#), a global benchmarking study published in June 2021 by IFAC, AICPA and CIMA.

Turning to the assurance side, the IESBA recognizes that the Code (including the International Independence Standards (IIS) contained in Part 4B²) already applies to accounting firms that perform assurance engagements in accordance with the IAASB's International Standard on Assurance Engagements (ISAE) 3000 (Revised).³ However, the IESBA acknowledges that the major shift towards sustainability reporting and assurance has raised a number of questions regarding the robustness and sufficiency of the IIS in Part 4B. Some of these questions include, for example, whether there is a need to consider the relevance of the PIE concept as it applies to assurance engagements related to sustainability information, the independence provisions that should apply to network firms and other firms participating in such engagements, the meaning of materiality where sustainability regulation or standards require its consideration beyond traditional financial statement materiality, and independence provisions that should apply to external experts involved in sustainability assurance engagements.

Anticipating the need to act promptly, the IESBA established a Sustainability Working Group in Q1 2022 to begin fact finding work on sustainability reporting and assurance. While the IESBA recognizes the need to move with a sense of urgency and will continue to monitor any global regulatory and standard-setting developments in this regard, it also believes the fact-finding work must precede, and will help circumscribe the scope and direct the focus of, any standard-setting work in order to achieve the greatest possible impact. The IESBA envisages that this fact-finding work will be completed within the current strategy period. The IESBA will then determine the timing of any new standard-setting work based on the recommendations of its Sustainability Working Group and in consultation with the IESBA CAG and the PIOB.

At the same time as the Sustainability Working Group earnestly lays the groundwork for the IESBA's standard-setting response in the sustainability area, the IESBA has also commissioned IESBA Staff to develop non-authoritative guidance to highlight the relevance and applicability of the Code in relation to a number of ethics and independence concerns in relation to PAs' involvement in sustainability reporting and assurance. One such concern is the reporting of information that gives a false or misleading impression about how well a business or investment aligns with its sustainability goals ("greenwashing").

More broadly, as the IAASB is prioritizing its own focus on sustainability assurance, the IESBA will coordinate closely with the IAASB on any standard-setting work so that matters of mutual concern to the Boards' stakeholders are addressed promptly and the Boards' standards will be mutually consistent and interoperable. An important area of focus will be to understand the IAASB's approach to developing any new standards addressing sustainability assurance as this might impact the extent and direction of the IESBA's own standard-setting work. Further, the IESBA will prioritize engagement and dialogue with the International Organization of Securities Commissions (IOSCO) and other relevant international bodies as well as regulatory bodies in major jurisdictions, including the EU and major G20 countries, that are developing or actively considering policies or regulations addressing sustainability reporting and assurance.

Beyond assurance, there is also a need to consider the evolving nature and growing extent of the advisory services PAPPs are providing to entities as those entities respond to market pressures for more transparency about their sustainability goals, key performance indicators and accountability metrics.

² Part 4B of the Code addresses independence for assurance engagements other than audits and reviews of financial statements. In January 2020, the IESBA issued revisions to Part 4B to align its provisions with the revised assurance terms and concepts in ISAE 3000 (Revised).

³ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Involvement of Other Assurance Service Providers

Given the IESBA's expectation that PAs will play a major role in sustainability reporting and assurance, the IESBA envisages that a large part of its standard-setting work under the new SWP will be focused on maintaining the robustness and relevance of the Code's ethics and independence provisions as these apply to PAs. The IESBA, however, recognizes that there is a wide range of professional firms outside of the accountancy profession that are providing assurance services with respect to sustainability information. This diversity of assurance service providers reflects not only the reality that sustainability reporting covers a much wider spectrum of disciplines and topics than financial information, but also the fact that regulations continue to lag behind the natural demand-supply evolution of sustainability reporting and assurance. Further, regulations being developed in some major jurisdictions expressly contemplate that the market for sustainability assurance services will not be limited to providers within the accountancy profession. This is part of a broader trend away from a provider-centered regulatory approach towards a service-centered one.

ISAE 3000 (Revised) is designed to support the performance of assurance engagements by all providers of assurance services including PAs in public practice (PAPPs). Whilst the Code governs PAPPs ethical conduct or independence on assurance engagements, it appears that there are currently no comprehensive or globally accepted standards that govern the ethical conduct or independence of these other assurance service providers, or standards as comprehensive as those in the IESBA Code.⁴ Accordingly, the IESBA recognizes that there is an open question as to whether the public interest will be better served if the scope of the Code — as a body of ethics (including independence) standards that is already globally recognized and trusted — were to be enlarged to cover assurance service providers that are not PAPPs. Underpinning this question, which appears simple but might have complicated ramifications and far-reaching consequences, is a proposition that is difficult to challenge from a public interest perspective, namely that all providers of sustainability assurance services should be held to the same high ethics (including independence) standards, regardless of the profession to which they belong. One ramification for the Code if its scope were to be expanded along those lines is whether its provisions should cover other providers outside of the accountancy profession who supply similar services provided by individual PAIBs or PAPPs, such as tax planning and related services.



In posing the question of whether there would be merit in broadening the scope of the Code, the IESBA is not prejudging what the final answer should be, or how such a scope enlargement might be achieved,⁵ but merely seeking thoughts and reactions from stakeholders as to how compelling this proposition would be from a public interest perspective. The IESBA recognizes that a related fundamental question is how to achieve the authority of binding standards for non-PAs and the associated need for enforcement. In this

⁴ ISAE 3000 (Revised), paragraph 20, requires the practitioner to comply with the provisions of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. However, the Code currently applies only to PAs.

⁵ This survey is not seeking to open a broad discussion on the mechanisms for achieving a scope enlargement for the Code. This is a matter the IESBA would explore more fully as part of a separate work stream if it determined there was sufficient ground and stakeholder support to proceed with developing this notion of scope enlargement in more concrete terms.

regard, the IESBA sees that there would be a clear need for the support of, and complementary action by, the regulatory community.

1. What level of importance do you believe the IESBA should place on dedicating strategic focus to responding through standard-setting action to the developments in sustainability reporting and assurance in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

Developments in ESG are happening rapidly. We need to understand what forces are driving this momentum and distinguish between the motives and intentions of each. This will then help the IESBA to bring an independent perspective to its own deliberation.

The accounting profession has again taken the lead in ESG developments, with firms recognizing the market opportunity the work in the area presents. The work that firms do should be one input to IESBA's considerations of what its priorities should be.

We agree that it is important to continue researching what impact ESG developments may have on the Code. Specifically, we support the statement that *"fact-finding work must precede and will help circumscribe the scope and direct the focus of, any standard-setting work in order to achieve the greatest possible impact"* and agree that independence for assurance engagements other than audit and review engagements needs to be a specific area of focus.

In the context of the other strategic pillars this, in our view, carries equal weight as the pillar "strengthening independence standards for audit engagements". Practically, it may make sense to consider combining these two pillars into one strategic pillar that explores "strengthening independence standards for ALL assurance engagements, including ESG".

This proposal is made based on the below thoughts / questions as we deliberated our response:

- ESG is topical (in some areas), but from a reporting and preparing perspective first, the fundamental principles remain relevant to ESG assignments.
- Do / Should the ethical standards for PAPPs, PAIB and other assurance providers really be different?
- To continue developing / expanding the Code to cater for different service lines, builds further complexities into the Code that may undermine its effectiveness.

Consequently, we caution against over-emphasizing the importance of this strategic pillar based on very short-term market interest that is still developing and stress the importance of strengthening independence provisions for ALL assurance services. As MG reforms slowly unfold, and influence the composition of the IESBA, with more non-practitioner Board members, the voice of non-practitioners in this area will particularly relevant.

2. Do you believe the IESBA should explore the concept of expanding the scope of the Code to cover assurance service providers other than PAPPs? What preconditions would need to be in place and what potential challenges or drawbacks do you foresee if the Code's provisions were scoped to the nature of the assurance services provided as opposed to who is providing the assurance services?

We agree that there could be merit in expanding the scope of the Code to cover assurance service providers other than PAPPs from a public interest perspective, assuming it will contribute to consistent ethical behaviour by all assurance service providers.

One unique and in-depth insight about this question can be gained from the observations made by the Chief Justice of South Africa, Judge Zondo, in the report of the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State (Zondo Commission or State Capture Commission):

“The influence of management consultants has had profound effects on South Africa in the past few years. That influence extends to state capture.

Compared to the other professions in this brief, management consulting is relatively young. In its fairly short existence, it has yet to subject itself to any kind of general regulation - which some would argue means it cannot rightfully be classed as a 'profession' in the first place. In any event, the lack of a supervisory body enforcing a code of ethics has enabled gross abuses of power.

Even while their role is advisory, the influence they exert over the development of policy is very real.”

[- How accounting, legal and management sectors played role in state capture \(iol.co.za\)](https://www.iol.co.za/news/south-africa/2021-04-26-how-accounting-legal-and-management-sectors-played-role-in-state-capture-2021-04-26)

The experience and proceedings of the Zondo Commission should be considered as a case study of the role of service providers other than PAPPs. The Zondo Commission's findings are recent, are based on experience with local and international consultancies and the insights were obtained through a judicial process which lends credibility to the insights.

Based on this, we agree that the process to achieve the authority of binding standards for non-PAs and the associated need for enforcement will be one of the fundamental challenges. We base this on the fact that we already experience jurisdictional enforcement challenges as relates to the registered auditors and the chartered accountancy profession.

In South Africa, the registered auditor and audit profession are regulated by the IRBA in accordance with the Auditing Profession Act 2005 (as amended by the Auditing Profession Amendment Act No. 5 of 2021, as published in Government Gazette 44493 dated 26 April 2021 (Auditing Profession Act). IRBA's inspections and investigations mandate does not extend to professional accountants who are not registered auditors. Professional accountants may be subject to education, training, and examination requirements by voluntarily joining one of the approximately twelve Professional Accounting Organisations (PAOs) in South Africa. There is no overall national supervision for professional accountants and as a result, professional accountants cannot always be held accountable for misconduct under law. The South African National Treasury is working to address the issue of comprehensive regulation and is still considering a model for the regulation of the PAOs.

In the context of the above, we highlight the following further thoughts / questions for IESBAs consideration:

- What is the likely implication of this for the Code? Does the IESBA envision developing separate sections for this constituency? Long-term, will the IESBA continue to add to the existing Code?
- Without regulatory enforcement, will it be beneficial to extend the scope of the Code to other assurance service providers and further lengthen and complicate the Code?
- In South Africa, we anticipate that these additional sections will not be enforced by audit regulators given the powers of the IRBA do not extend to accountants or other assurance providers.

- Could expansion of the scope of the Code, possibly widen the expectation gap? The public will expect all assurance professionals to not only adhere to the provisions of the Code, but also be held accountable when in breach of the Code when this is not feasible.

We therefore propose that further research be done to understand jurisdictional challenges before investing in the expansion of the scope of the Code, because in the absence of the enforcement leg, the cost, not just in terms of resourcing, but also in terms of complicating / lengthening the existing Code, may outweigh the benefit.

3. Are there other matters the IESBA should consider with regards to this strategic focus area?

We have no other comments, over and above what we have already raised in response to Questions 1 and 2.

2. Raising the bar of ethical behavior for professional accountants in business

The IESBA sees another potential area of strategic focus is raising the ethical bar for PAIBs beyond issues of sustainability reporting. Over half of the world's PAs are PAIBs working on their own or in organizations other than public accounting practices. PAIBs are a very diverse constituency, and can work as employees or consultants in commerce, industry, education, and the public and not-for-profit sectors. Many are in a position of strategic or functional leadership, or are otherwise well-placed to collaborate with colleagues in other disciplines to help their organizations toward long-term sustainable success.



Given that many PAIBs play a fundamental role in the financial reporting supply chain and facilitate effective governance in organizations, it is in the public interest that the provisions of the Code applicable to PAIBs are appropriate and robust. During the previous strategy period, the IESBA completed a two-phase project that significantly enhanced the Code's provisions relating to the ethical behavior of PAIBs. The enhancements included revisions to the provisions on inducements and the preparation and presentation of information, as well as a new standard on dealing with pressure to breach the fundamental principles.

As part of the current strategy period, the IESBA has introduced new provisions in the Code that promote the role, mindset and behavioral characteristics expected of all PAs when performing their professional activities. The IESBA has also issued for exposure [proposed technology-related revisions](#) to Part 2 of the Code which applies to PAIBs. In addition, the IESBA has a separate [working group](#) that is carrying out fact finding to further understand the broader technology environment, including the ethical implications for PAs of developments such as blockchain, cybersecurity and cloud-based services.

4. Beyond sustainability reporting which is covered under the first strategic focus area above, do you believe the IESBA should dedicate strategic focus on further raising the bar of ethical

behavior for PAIBs in its next strategy period (2024-2027)? Please be as specific as possible in terms of specific trends, developments or issues⁶ and explain your reasoning.

The most important strategic pillar from our jurisdictional perspective is *“Raising the bar of ethical behavior for professional accountants” (not only in) in business, but also in public practice.*

The media continues to highlight unethical conduct in business and professional practice. Understanding what gives rise to these behaviours is important in directing how to address them, including identifying potential gaps / implementation challenges in the Code.

In South Africa, the auditing and accounting profession has suffered many criticisms.

Topics highlighted in the media include, but are not limited to:

- Collusion
- Bribery
- Facilitation
- Conflict of interest
- Increased pressures on accountants/auditors when businesses are under financial distress
- Whistleblowing
- NOCLAR
- Accountants/Auditors not managing their Continued Professional Development (CPD)
- Complacency

It's important that PAIBs understand:

- Their role in Corporate Governance
- How to maintain their cognitive intelligence
- How to be responsible and ethical leaders

Although we face some unique jurisdictional challenges, we note that it is not purely a jurisdictional matter given the links between State Capture and International Firms as well as considering some of the recent publicity from the UK and US, for example:

South Africa News:

- [| The bankers, lawyers and liars who enabled state capture \(opensecrets.org.za\)](#)
- [State Capture Report: Implications for the accountancy profession - SAIPA](#)
- [\(68\) Webinar: The role of Auditors in preventing State Capture - YouTube](#)

UK News:

- [KPMG and ex-partner accused of misconduct in FRC's investigation into Carillion audit \(cityam.com\)](#)
- [KPMG to be fined £14m for forging documents over Carillion audit | KPMG | The Guardian](#)

US News:

- [Ernst & Young pays \\$100m to settle US charges of cheating on ethics exams | EY | The Guardian](#)
- [PCAOB Sanctions Engagement Quality Reviewer for Inadequate Reviews and False Documentation Created in Advance of Inspection | PCAOB \(pcaobus.org\)](#)

⁶ Section C in this survey sets out a few specific matters or concerns that have come to the IESBA's attention as these relate to PAIBs.

- [PCAOB Sanctions Former KPMG Vice Chair of Audit for Failure Reasonably to Supervise, Imposing Largest Individual Penalty Ever in a Settled Proceeding | PCAOB \(pcaobus.org\)](#)

Thus, strengthening / improving actual ethical conduct in business *and in performing professional services* is an important goal and should remain at the top of the IESBAs strategic focus. To this extent it should not be limited to PAIBs, but PAPPs overall.

“*Raising the bar*” does not suggest a prominent leadership role for IESBA, rather one that involves following developments. Considering current affairs, it may be necessary for IESBA to reflect on this strategic pillar, which implies following instead of leading, to enhance its relevance and lead efforts to improve ethical conduct in business and public practice.

We propose an objective look at the Code in light of current trends, developments or issues. Alternatively, post-implementation reviews especially in relation to some of the more recent provisions, could prove insightful.

3. Strengthening independence standards for audit engagements

Recurring headlines about collapses of large public companies due to fraud as well as other financial scandals across the globe have continued to draw much public attention to the role of auditors as corporate guardians of public trust and confidence in entities’ financial statements. Some of these events have called into question not only the quality of the audits but also the independence of the auditors. In addition, there continues to be heightened regulatory scrutiny not only on aspects of the performance of an audit, such as the exercise of professional skepticism and professional judgment, but also on broader considerations relating to auditor independence and the audit firm multi-disciplinary business model.



As highlighted in the Background subsection above, the IESBA has continued to dedicate strategic effort to addressing aspects of the issues in the current strategy period through its three major inter-related independence-focused projects on NAS, fees, and the definitions of listed entity and PIE. In this regard, the IESBA believes that the revisions to the Code as a result of the [NAS](#) and [Fees](#) projects represent a major public interest contribution towards addressing some of the concerns about the business model of firms.

Within the current strategy period, the IESBA also continues to place high priority on projects that will further enhance auditor independence. These include the [Engagement Team – Group Audits Independence](#) and [Technology](#) projects. These two projects are ongoing, with Exposure Drafts issued in February 2022. In addition, as a result of its [PIE project](#), the IESBA has committed to undertaking a holistic review of collective investment vehicles and other “non-corporate” legal structures such as mutual funds, private equity funds, pension funds and trusts to assess whether the independence provisions in the Code appropriately cover audits of such vehicles or structures, or whether they need to be clarified and expanded.

The IESBA will also consider the findings of Phase 1 of its [Benchmarking](#) initiative to determine whether there are independence matters that would warrant specific attention from a standard-setting perspective.

Phase 1, which was completed in March 2022, compared the IIS as applicable to PIEs to the relevant independence requirements of the US Securities and Exchange Commission (SEC) and the US Public Company Accounting Oversight Board (PCAOB).

Section C also sets out a number of specific topics that the IESBA has identified from previous or current work streams, or which were otherwise brought to its attention. Subject to stakeholder input to this survey, the IESBA may consider prioritizing some of these topics from the perspective of further strengthening the IIS relative to auditor independence.

5. Do you believe the IESBA should continue to dedicate strategic focus on strengthening the IIS for audit engagements in its next strategy period (2024-2027)? If so, what specific developments or issues do you believe the IESBA should focus on beyond the matters outlined above and in Section C? Please be as specific as possible and explain your reasoning.

We agree that the IESBA should continue to dedicate strategic focus on strengthening the IIS for audit engagements.

We recommend a combination of research and post implementation reviews to determine where the focus should be.

Research could identify new threats to independence (i.e., threats not yet identified and addressed in the Code) e.g.,

- The effects of Mandatory Audit Firm Rotation (MAFR) on independence and the broader Code
- The effects of Audit Only Firms on independence and the broader Code
- The effects of Joint audits on independence and the broader Code
- Threats to objectivity created by pressures on the audit partner to manage margin whilst being responsible for quality i.e., how can the auditor be truly objective when faced with margin pressures in the current economic environment?
- Threats to independence created by extended association with the client in instances where there are delays in the audit.
- Threats to independence created through sub-contracting arrangements e.g., when one firm subcontracts part of the audit work to another audit firm and the second audit firm provides consulting or other non-assurance services.

In summary we propose a fresh look at independence provisions through root cause analysis as opposed to simply building on pre-existing ideas of what gives rise to independence threats.

4. Promoting timely adoption and effective implementation of the Code

Prior to the release of the restructured Code in 2018, the Code had been adopted or had been used as a basis for national ethics standards or the ethical codes of professional accountancy organizations (PAOs) in over 120 jurisdictions around the world, including 16 among the G-20. As of January 2022, over 85 jurisdictions have adopted, or committed to adopt, the restructured Code. In addition, the 31 largest international networks of firms that comprise the [Forum of Firms](#) have also aligned their policies and methodologies to conform to the restructured Code for transnational audits.



The IESBA dedicates significant effort to promoting the adoption and effective implementation of the Code, including new revisions to the Code, through various initiatives and activities, an important part of which is stakeholder outreach. Beyond these, the IESBA considers it a high priority to conduct post-implementation reviews (PIRs) of significant revisions to the Code to assess how effectively the implementation of those revisions is meeting the original objectives of the revisions. So far, within this current strategy period, the IESBA has completed Phase 1 of the Long Association PIR. The IESBA plans to initiate the PIRs of the restructured Code and the NOCLAR provisions as well as Phase 2 of the Long Association PIR in the remaining two years of the current strategy period (2022-2023).

As part of the new strategy period, the IESBA expects to prioritize PIRs of the revisions to the Code relating to the NAS, Fees and PIE projects.

6. Do you believe the IESBA should devote strategic focus on promoting timely adoption and effective implementation of the Code in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

We support *promoting timely adoption and effective implementation of the Code* proposed strategic pillar across all jurisdictions, and especially for developing economies.

7. Are there specific operability issues or concerns with respect to the Code you believe the IESBA should be made aware of?

It is not clear, from the proposed strategic pillars, what the IESBAs overall vision is for the Code in the longer term. We continue to develop, add, and build more provisions into the Code, increasing its length and complexity. Despite recent restructuring, it is unclear whether the Code has become easier to use, especially in locating the solution to the issue that brings a user to the Code. Thus, does the strategy incorporate any plans to simplify, enhance understandability, decrease the overall length of the Code and through this enable better use by practitioners? As MG reforms progress, and the composition of the IESBA changes, it will be important to leave space in IESBA's strategy for new Board members to shape the future strategy and work programme, so that their hands are not tied after their appointments.

In addition, we offer the following thoughts for your consideration:

- a. The Code needs to be modernised in areas where there has been change in the world, and where the Code is lagging, for example, in the area of auditor independence standards. Refer to response to question 5 for context.
- b. The Code needs to help simplify the application of existing provisions to enhance its effectiveness for example:
 - i. It is complicated to identify the audit client, and therefore difficult to determine which time-on and time-off periods apply to PIEs vs non-PIEs, their related entities and the individuals associated with all the preceding entities. i.e., it is a process to get to the correct answer.
 - ii. Being clearer about which non-audit services are prohibited and which ones are not and at what levels (PIE vs non-PIE and including or excluding related entities). The Code contains a list of services that may create threats; whether these are then prohibited or not requires a complicated and sometimes judgmental assessment. The list gets longer every time a practitioner identifies a “loophole” i.e., a scenario not specifically provided for by the Code. Long term, what is the vision to simplify this assessment?
- c. IESBA needs to make an assessment of the achievements of the NOCLAR provisions. Has it achieved its intended purpose / changed behaviours? PAOs should be asked about evidence of NOCLARs occurring.

OTHER KEY ENVIRONMENTAL TRENDS OR DEVELOPMENTS

8. *Are there key environmental trends or developments, beyond those already noted above, you believe the IESBA should focus on in its next strategy period (2024-2027)?* Please be as specific as possible and explain your reasoning.

We have no additional comments, over and above what we have already raised in response to Questions 4, 5 and 7.

Section C: Possible Future Standards-Related Projects or Initiatives

The following table lists topics that the IESBA may consider as potential future projects or initiatives in the 2024-2027 strategy period. The IESBA has identified these topics through various means, including ongoing and recently completed work streams, and the previous strategy consultation process.



When the IESBA reviews these topics as part of the development of the SWP consultation paper, the IESBA will take into account:

- Respondents' input on the strategic direction and priorities for the next strategy period (Section B).
- The level of importance of each topic based on a number of factors.
- Input received from respondents to this Section (Section C).

Please note that this section provides only a high-level overview of each topic noted in the table below. Respondents will have an opportunity to comment on a full description of the IESBA's proposed strategic work plan when it issues the consultation paper in due course.

	Topic
INDEPENDENCE TOPICS – PAPPs	
1.	Independence of external experts
2.	Audit firm – audit client relationship
3.	Business relationships
4.	Definition of “audit client” for PIEs
5.	Matters arising from Quality Management (QM)-related conforming amendments to the Code
PAIB-SPECIFIC TOPICS	
6.	Familiarity threat in relation to Part 2
TOPICS ADDRESSING PAs MORE BROADLY	
7.	Professional appointments
8.	Breaches of the Code
9.	Definitions and descriptions of terms
OTHER TOPICS	
10.	Non-authoritative material

The IESBA is seeking respondents' assessment of the level of importance of each of these topics (on a scale of 1-5) and a brief rationale for those that have been assessed as high importance (Rating: 4-5).

Factors for Rating the Topics

When assessing the level of importance, respondents are asked to consider the following factors:

- Public interest benefits
 - The level of public interest in undertaking the project or initiative.
 - The extent to which the action will enhance public trust in the Code and the profession.
 - The extent to which the action will raise the bar on ethical behavior for PAs.
- Relevance
 - Pervasiveness of the matter or issue to the global profession.
 - Relevance of the topic at a global level.
 - Relevance of the topic to the ethical behavior of PAs or independence.
- Urgency
 - The degree of urgency in addressing the issue(s) identified.
 - The extent of the impact on the public interest and the profession if action is not taken or is delayed.
- Achievability
 - Feasibility of achieving an effective outcome within a reasonable timeframe, taking into account the resources required.

Please rate each topic listed below on its level of importance as a priority for the IESBA's SWP 2024-2027 on a scale of 1 to 5 (1 = lowest level of importance). Please refer to the factors for rating the topics above when assessing each topic.

For those topics that you rated either a 4 or 5 (i.e., the highest levels of importance), please provide a brief explanation for your rating.

Independence of External Experts

Under the Code's and the IAASB's definitions of "engagement team," an auditor's external expert is not a member of the engagement team for an audit or other assurance engagement. As such, they are not scoped in for the purposes of the IIS. They are, however, subject to objectivity requirements under ISA 620⁷ in the context of an audit of financial statements.

A potential project on this topic would consider whether external experts used on audit and other assurance the expected increase in involvement of external experts under ISA 540 (Revised)⁸ and sustainability

⁷ International Standard on Auditing (ISA) 620, *Using the Work of an Auditor's Expert*

⁸ ISA 540, *Auditing Accounting Estimates and Related Disclosures*

assurance standards. This matter arose during the IESBA's and IESBA Consultative Advisory Group's (CAG) discussions on the [Engagement Team – Group Audits Independence](#) project. Such a project would require coordination with the IAASB.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 3

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Not applicable

Audit Firm – Audit Client Relationship

As part of its [Fees](#) project, the IESBA concluded that the Code should recognize the inherent self-interest threat in the audit client payer model whereby the party responsible for the subject of an examination directly pays the examiner. The IESBA, however, agreed that the inherent risk related to the audit client payer model is part of a broader issue of the “audit firm–audit client” relationship, which was outside the scope of the Fees project.

A potential project on this topic would therefore consider whether the Code should address the inherent threats arising from the client relationship more broadly. It may also address a related matter which is whether it continues to remain appropriate for the Code to use the term “audit client” as opposed to the “audited entity” or “entity subject to audit.” This recognizes that the ultimate beneficial client is not the entity itself but the entity’s owners or shareholders.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 5

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Please refer to our response to Question 5 for context.

Acknowledging and specifically addressing the inherent threats arising from the “audit firm – audit client” relationship is another example of how IIS can be strengthened. We are therefore of the view that it is in the public interest and has the potential to enhance public trust in the Code and the profession.

Decreasing the familiarity between the auditor and the audit client / management, through for example;

- changes in how the auditor communicates with the audit client / management i.e., if communications were to be channeled strictly through the audit committee who is an independent party or
- changes to how audit teams are structured i.e., requiring fee negotiations to be separated from the audit or the signing partner’s responsibilities.

Decreasing the dependency of the auditor on the audit client / management, through for example, how fees are paid or structured (audit client payer model changes).

Thus, changes in substance may enhance independence between the auditor and the audit client.

We, however, don't agree that changing words alone to describe audit clients as audited entities and other related changes is likely to change behaviours or have any meaningful impact. We would not

attach a 5-priority rating to a project that merely changes syntax, however, highly recommend a project that would investigate inherent threats to independence that arise from the Audit Firm – Audit Client Relationship and proposes a means to resolve these inherent threats.

Business Relationships

Section 520 of the Code addresses threats to independence arising from business relationships between an audit firm and an audit client or its management, with the provisions focused on “close business relationships.”

The Code does not define or describe the term “business relationship.” Whilst the concept of “close business relationship” in Section 520 focuses on a “mutuality of interests” such as joint ventures and combining services or products with those of an audit client, there is a view that “business relationship” is a broader concept, i.e., consisting of any commercial arrangement.

A potential project on this topic would therefore consider revisiting Section 520 more comprehensively to deal with threats to independence from a broader business relationship context. This matter was identified as part of the current Technology project but is deemed to be outside the scope of that project.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 4

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Please refer to our response to Question 5 for context.

We support the view that “business relationship” is a broader concept, i.e., consisting of any commercial arrangement.

Exploring the effects of other commercial arrangements between the audit firm and the audit client is another example of how IIS can be strengthened. Specifically, the impact of commercial relationships stemming from advisory, tax and other non-assurance services on the independence of the auditor and the audit firm for the purposes of identifying threats to independence and how these can be eliminated. In undertaking this project, we don’t believe the aim should be to try and identify all types of commercial arrangements that impede independence, but rather focus on identifying the specific attributes / characteristics that render a commercial relationship inappropriate from an independence perspective. Focusing on specific arrangements, leaves room for loopholes that can be exploited in practice.

This project can also incorporate research related to audit-only firms and whether this will eliminate threats to independence as the move to an audit-only firms’ model is bound to introduce new / different commercial arrangements that could impact auditor independence.

Definition of Audit Client for PIEs

The extant Code contains only one reference to “listed entity” in the IIS that is separate from its treatment as a PIE. This reference, in extant paragraph R400.20, specifies which related entities are included in the definition of an audit client depending on whether the audit client is a listed entity or not.⁹

As part of the [PIE](#) project, the IESBA agreed to replace the reference to listed entity in extant paragraph R400.20 with the new term “publicly traded entity.” As part of its deliberations, the IESBA also considered whether to replace the reference to listed entity in paragraph R400.20 with PIE, thereby enlarging the scope of the related entities included with the audit client when it is a PIE. However, the IESBA agreed that addressing the relevant issues such as the corporate structures of private equity complexes and sovereign wealth funds as well as the flow of information within those structures were beyond the scope of the PIE project.

A potential work stream on this topic would undertake further research to gain a better understanding of the ramifications of extending the whole universe of related entities for listed entities in extant paragraph R400.20 to apply to all PIE audit clients.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 4

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Please refer to our response to Question 7 for context.

Clarifying the identification of the audit client is one example of how the application of the Code can be simplified.

We therefore support the proposal to perform research to gain a better understanding of the ramifications of extending the whole universe of related entities for listed entities in extant par. R400.20 to apply to all PIE audit clients.

Specifically, it may simplify the application of many other independence-related provisions within the Code, such as Long Association and NAS. It will also contribute to the effective implementation of the PIE amendments.

Matters Arising from Quality Management (QM)-Related Conforming Amendments to the Code

There were a number of substantive matters of alignment that arose during the project to develop the [limited conforming amendments to the Code](#) as a result of the finalization of the IAASB’s QM projects. These matters were beyond the scope of the conforming amendments project. This limited scope project, which was finalized in December 2021, focused on the relevant provisions of the Code that refer to ISQM 1¹⁰ or ISQM 2,¹¹ or terms and concepts used or defined in those two QM standards.

⁹ Extant paragraph R400.20 states: “As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control.”

¹⁰ 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*

¹¹ ISQM 2, *Engagement Quality Reviews*

The matters raised include:

- Whether networks can be defined by common requirements or services as opposed to common policies and procedures.
- Whether references to network firm in the Code, including in the definition of “audit team,” should be extended to include “the network,” given that ISQM 1 contemplates that there is the network, other firms in the network, and other structures or organizations within the network.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 4

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

The implementation of ISQMs is significant for auditors. This is because there is a high expectation, from an implementation perspective, for ISQMs to tangibly improve audit quality from a firm quality management perspective.

The conforming amendments to the Code are therefore also a high priority.

We agree with the proposal to clarify issues surrounding “networks” per the above.

In addition, in preparing our comments to the *QM-related Conforming Amendments Exposure Draft*, we reflected on whether the interaction between the IESBA Code and the ISQM 1 requirements, are clearly reflected in the proposed conforming amendments to the IESBA Code.

Our reflections identified questions such as:

- How do threats to compliance with the fundamental principles, including independence, feed into the establishment of quality objectives and the identification and assessment of quality risks?
- How do breaches of the IESBA Code translate to findings and/or deficiencies in the system of quality management?
- How do the specified response requirement (policies and procedures established by the firm) relate to the IESBA Code requirements?

Although it wasn’t within the scope of this conforming amendments project to address these questions, we highlighted the need to have guidance that cross-references the fundamental changes to ISQM 1 and explains how these should be read and applied in accordance with the IESBA Code.

We therefore reiterate this proposal for the IESBAs consideration. We are of the view that guidance in this regard will enhance the standing of the IESBA Code and address the potential for an inconsistent understanding and application of the IESBA Code in the application of ISQM 1.

Familiarity Threat in Relation to Part 2 of the Code

During the Long Association project, it was noted that the extant definition of “familiarity threat” contains a reference to “employing organization.” However, the Code has only a few examples of familiarity threats with respect to PAIBs in the context of their employing organizations.

Currently, extant paragraph 200.6 A1(d) provides two general examples of familiarity threats for a PAIB when undertaking a professional activity; and paragraph 250.11 A3 provides one example of a familiarity threat that

might be created when an inducement is being offered or accepted even if the PAIB has concluded there is no actual or perceived intent to improperly influence behavior.

A potential work stream on this topic would consider whether there is a need to provide additional guidance in the Code or in non-authoritative material regarding how PAIBs should address familiarity threats in the context of their work for employing organizations.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 4

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Please refer to our responses to Question 4 for context.

Identifying threats faced by PAIBs and providing guidance on how to appropriately respond to those threats is a very important topic.

We want to recognize however, that these threats may extend beyond familiarity threats depending on the stressor being faced by the PAIB.

Other stressors / circumstances that may create threats to the PAIBs ability to comply with the fundamental principles include instances when they come face to face with:

- Collusion
- Bribery
- Facilitation
- Conflict of interest
- Increased financial pressures e.g., business is under financial distress
- Whistleblowing
- NOCLAR

It's important that PAIBs understand:

- Their role in Corporate Governance
- How to maintain their Cognitive intelligence
- How to be responsible and ethical leaders

Given the relevance of these very real issues being faced in practice, we support a project that investigates, not only examples of familiarity threats, but also other threats to compliance with the fundamental principles that that are created by practical situations that extend beyond inducements.

Professional Appointments

In the context of a change in professional appointment, paragraph R320.6 of the Code requires a proposed PA to take other reasonable steps to obtain information about any possible threats if the PA is unable to communicate with the existing or predecessor accountant. Paragraph 320.5 A1 provides that a proposed PA will usually need the client's permission to initiate discussions with the existing or predecessor accountant.

Paragraph R320.8 deals particularly with changes in audit or review appointments. It provides that if a client fails or refuses to grant the existing or predecessor accountant permission to discuss the client's affairs with the proposed accountant, the existing or predecessor accountant shall disclose this fact to the

proposed accountant, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

A potential project on this topic would consider whether the Code should require a proposed PA to decline an appointment if the client fails or refuses to give permission to the existing or predecessor PA to communicate with the proposed PA, unless there are certain exceptional circumstances.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 3

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Not applicable

Breaches of the Code

Extant paragraphs R400.80 to R400.89 and R900.50 to R900.55 of the Code address a breach of a requirement in Parts 4A and 4B, respectively. These provisions require a firm to take certain actions upon concluding that a breach has occurred, such as addressing the consequences of the breach, determining whether to end the audit or assurance engagement, and communicating with those charged with governance. These provisions also provide guidance on matters such as actions a firm might consider to address a breach satisfactorily.

Extant paragraphs R100.8 – 100.8 A1 currently provide a requirement and application guidance to address a breach of any other provisions of the Code. A potential project on this topic would consider other matters some stakeholders have raised, such as:

- In addition to requiring a PA to address the consequences of the breach and determine whether to report it to the relevant parties (paragraph R100.8), whether the Code should address actions to stop the activity that caused the breach.
- Whether there should be any optionality in reporting a breach under paragraph R100.8 (b).
- Whether the conceptual framework in Section 120 should specifically address the disclosure required when a breach occurs and when the professional accountant is unable to end a service.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 5

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Please refer to our response to Questions 2, 4 and 7 for context.

Enhancing the requirements in respect of Breaches of the Code may encourage ethical leadership and increase accountability when PAs face controversy. We therefore agree that enhancing these requirements will be in the public interest.

We support the specific topics proposed above.

In addition, we propose that clarity be provided as to the general expectation of PAs when they become aware of breaches of the Code, not only when they themselves have breached the Code, but also when

they suspect breaches by other PAs as the extant paragraph does not specifically identify the different types of breaches that may occur and how to respond to these in differing circumstances.

Definitions and Descriptions of Terms

There are certain differences between the definitions of some terms in the Code and the definitions of the same terms in the IAASB standards. These terms include: financial statements; firm; independence; review engagement; and special purpose financial statements.

In addition, during the Structure of the Code project, the IESBA received a number of suggestions from respondents to reconsider how certain terms are currently defined in the Code, including:

- Audit team – Whether the definition of “audit team” should be broadened to include individuals within the firm who may be in a position to influence the conduct or outcome of an audit by removing references to individuals in a position to ‘*directly* influence’ the outcome of an engagement. It was argued that such a broadening of the term would better reflect the complexity of organization and influence within audit firms. There was also a view that the change would address the risk that an ability to influence is seen purely as a structural consideration (related to the position of an individual in a firm), instead of driving the assessment through a consideration that captures all those who have the ability to influence and are relevant to the engagement.
- Employee – Whether the term “employee” should include individuals who may act in the capacity of an employee, such as a contractor of an audit client, instead of only covering actual employees of an audit client.
- Engagement Period – Whether it remains appropriate to limit the concept of “engagement period” to the date the audit report is issued as the auditor has further responsibilities under auditing standards, such as addressing the effect on the opinion of matters that come to the auditors’ attention after the conclusion of the audit.
- Firm – Whether the term “firm” is too narrowly defined and whether a firm could have non-member employees, as well as clarifying the responsibility of PAs for employees other than PAs.
- Network Firm – Whether the concept of a “network firm” should place more focus on the exercise of judgment instead of being circumscribed by a list of examples of situations that might indicate the existence of a network. There is also a view that borders between associations and networks are increasingly diffuse, and there is therefore a need to consider any potential Code implications that might impact the definition of a network firm. It has also been noted that while the definition of “network firm” is sufficiently broad in the Code, the definition of “firm” is potentially narrow in its references to structures known to exist today and that this might become limiting for the future.
- Professional Accountant – Whether the definition of “professional accountant” should include retired or inactive professional PAs.

The IESBA’s Applicability project addressed the applicability of Part 2 of the Code to PAPPs. As part of this project, there were suggestions as to whether the definitions of a PAPP and a PAIB should be revised. The Code defines a PAPP to be a PA, irrespective of functional classification, in a firm that provides professional services. It has been brought to the IESBA’s attention that there is no clear limitation in the definition of a PAPP to those who actually provide professional services. The extant definition, however, appears to include any PA in a firm that provides professional services. This could be interpreted to include PAs in roles other than providing professional services, such as in finance or IT.

Conversely, the Code defines a PAIB to include any PA employed or engaged in a variety of areas including service. If it is intended that a firm providing professional services is in a “service” industry, then prima facie any PA working in that service organization, including those providing professional services, is also a PAIB.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 3

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Not applicable.

Non-Authoritative Material (NAM)

Potential work streams would consider developing NAM in relation to the following topics:

Several respondents to the *Alignment of Part 4B of the Code with ISAE 3000 (Revised)* Exposure Draft suggested that users of the Code would benefit from more practical examples of how Part 4B is to be applied, such as:

- Graphical illustrations of the different independence requirements as between a direct and an attestation engagement, in particular where more than one responsible party or party responsible for the subject matter information is involved.
- Practical guidance on determining the nature of the data that represents the underlying subject matter of the assurance engagement
- Practical guidance or case studies on identifying the parties from which independence is required, particularly in new and emerging areas that will assist practitioners to better evaluate and comply with the independence obligations.

In finalizing the [revisions to Part 4B](#), the IESBA also agreed that non-authoritative guidance material to illustrate the application of Part 4B in different situations according to the various parties involved and by type of assurance engagement should be developed in due course.

Relationship Between the Concepts of “Inquiring Mind” and “Professional Skepticism”

As part of the [Role and Mindset](#) project, the IESBA introduced the concept of “having an inquiring mind” as a new element of applying the conceptual framework in the Code. It also provided guidance on what it means to have an inquiring mind. In considering the relationship between having an inquiring mind and exercising professional skepticism in the context of an audit or other assurance engagement, the IESBA made clear that, in addition to having an inquiring mind (which is required for all professional activities), PAs undertaking engagements to which auditing, review and other assurance standards apply are also required to exercise professional skepticism, which includes a critical assessment of evidence.

The IESBA also concluded that further explanation of the relationship and differences between these two concepts should be addressed through NAM rather than in the Code.

Types of Biases

As part of the Role and Mindset project, the IESBA also introduced new application material in the Code to illustrate eight common forms of bias that a PA might encounter, such as availability bias, automation bias, confirmation bias and groupthink. Given the principles-based nature of the Code, there was only a brief description of each type of bias.

There was a suggestion from some respondents to the Exposure Draft as well as from the IESBA discussions that the IESBA should consider developing NAM that provides expanded explanation of those examples of bias as well as other types of biases that may also be relevant to the exercise of professional judgment. There would also be consideration of exploring through NAM how biases affect a PA's professional judgment and the application of the conceptual framework.

How would you rate this topic as a strategic priority on a scale of 1 – 5? 2

If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

Not applicable.

9. *Are there specific ethics or independence-related topics not otherwise covered in this Section or this survey that you believe should be given a high priority by the IESBA?* If so, please explain and be as specific as possible.

We have no additional comments, over and above what we have already raised in response to Section C and the preceding questions.

For ease of reference, we reiterate the specific topics listed in response to question 5:

- The effects of Mandatory Audit Firm Rotation (MAFR) on independence and the broader Code
- The effects of Audit Only Firms on independence and the broader Code
- The effects of Joint audits on independence and the broader Code
- Threats to objectivity created by pressures on the audit partner to manage margin whilst being responsible for quality i.e., how can the auditor be truly objective when faced with margin pressures in the current economic environment?
- Threats to independence created by extended association with the client in instances where there are delays in the audit.
- Threats to independence created through sub-contracting arrangements e.g., when one firm subcontracts part of the audit work to another audit firm and the second audit firm provides consulting or other non-assurance services.