

IESBA Update

Institute of Public Accountants – May 2024

Gabriela Figueiredo Dias, IESBA Chair

Channa Wijesinghe, IESBA Member & Sustainability TF Member

Jens Poll, Former IESBA Member & Tax Planning and Related Services TF Chair

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Agenda

- IESBA Strategy and Work Plan 2024 - 2027
- Firm Culture and Governance
- Sustainability & Use of Experts
- Tax Planning Rollout



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IESBA Strategy and Work Plan 2024 - 2027

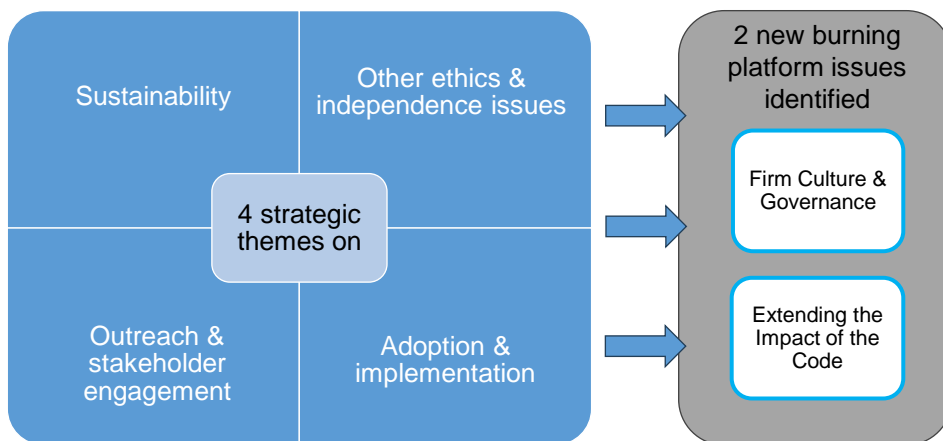


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Strategic Areas of Focus



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IESBA Strategy and Work Plan 2024-2027

2024 Workstreams

- Sustainability and Experts
- CIVs, Pension Funds and Investment Company Complexes
- Firm Culture and Governance

Work Plan 2025-2027 Highlights

- Extending Code impact to all preparers of sustainability info
- Developing profession-agnostic IIS for sustainability assurance engagements not covered by IESSA
- Role of CFOs and other senior PAIBs
- Business relationships
- Audit firm – audit client relationship
- PIRs (NOCLAR, Long Association, NAS, Fees, ET-GA, PIE definition)
- Emerging issues, including in relation to technology

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Firm Culture and Governance



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Firm Culture and Governance

BACKGROUND

STRATEGY & WORK PLAN 2024-2027 (SWP)

- Issue raised as part of SWP development
- IESBA recognized impact of firm culture on firm reputation and profession and agreed the topic is of strategic importance
- Strong stakeholder support
- Approved SWP:
 - An area of strategic focus
 - New work stream to commence Q1 2024

Working Group established Dec 2023

TERMS OF REFERENCE

OBJECTIVES

- Gather an **understanding of culture and governance and their impact** on compliance with ethics and independence requirements in accounting firms and, where applicable, their networks ("firms");
- **Review the extant provisions** on organizational and firm culture in the Code and consider whether the Code should be further strengthened to reinforce a robust culture of ethical behavior within firms;
- **Raise awareness** of the issues relating to, and the importance of, governance and ethical culture within firms through outreach activities; and
- Develop a **report and recommendations** to the IESBA

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Firm Culture and Governance

Potential Areas of Inquiry

March 2024 IESBA

4 External Presentations

UK FRC

IRBA

Australian Taxation Office

Prof. Ramanna (Oxford)

- Who is the true client?
 - E.g. when it comes to serving the government as a client, *public interest is the absolute priority*
- International firms
 - Are they each truly a global firm (submitting to highest standards) or a collection of local firms adhering to local requirements (i.e., sliding to "lowest common denominator")?
- Incentives really matter
 - Chasing revenue? Have firms become too corporate?
- Effect of weighting of audit vs consulting business on partners' mindsets?
 - Short-term mindset (consulting) vs long-term (audit)

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Firm Culture and Governance

Potential Areas of Inquiry

- Does governance break down when firms reach a certain size?
 - Challenges managing “rain-making” partners?
 - Big risks when business model is revenue-based?
 - Who resolves the issues when problems emerge – the partners managing revenue generation/growth?
- Transparency mechanism?
 - Internal and external signaling of consequences of unethical behavior as issues are being addressed
- Compliance mindset vs ethical principles
 - Large firm tendency to focus on rules, losing sight of ethical values

March 2024 IESBA

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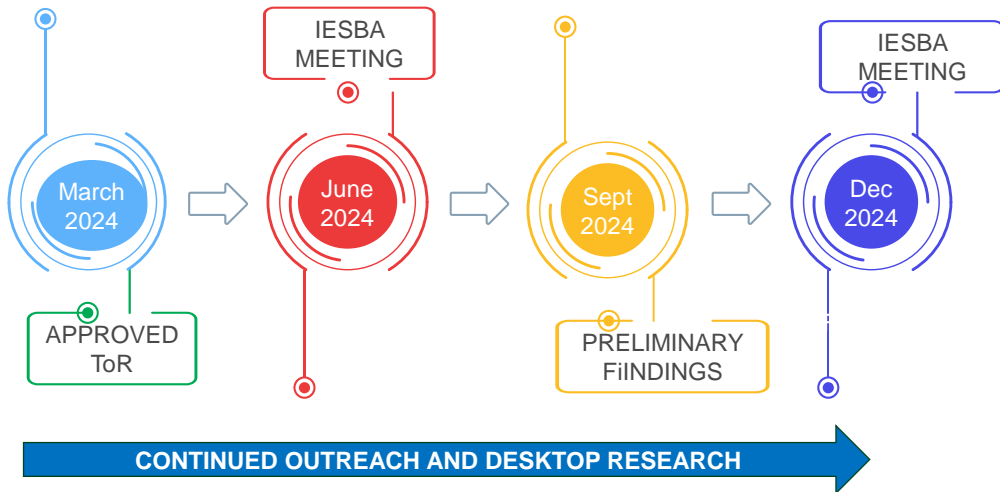
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Firm culture and Governance

Way Forward and Timeline



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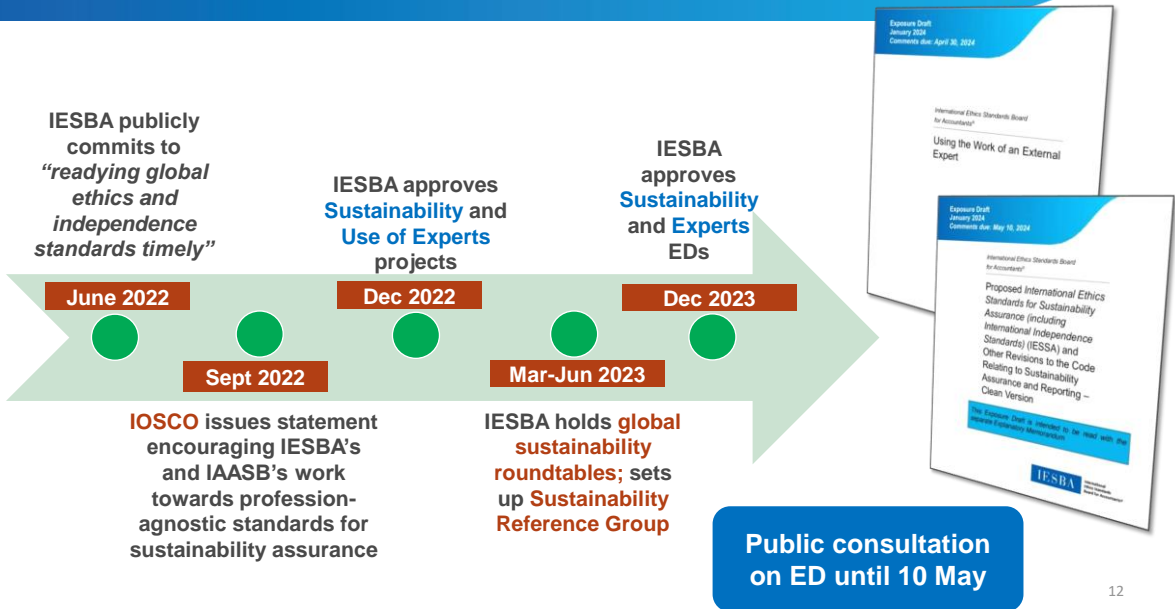
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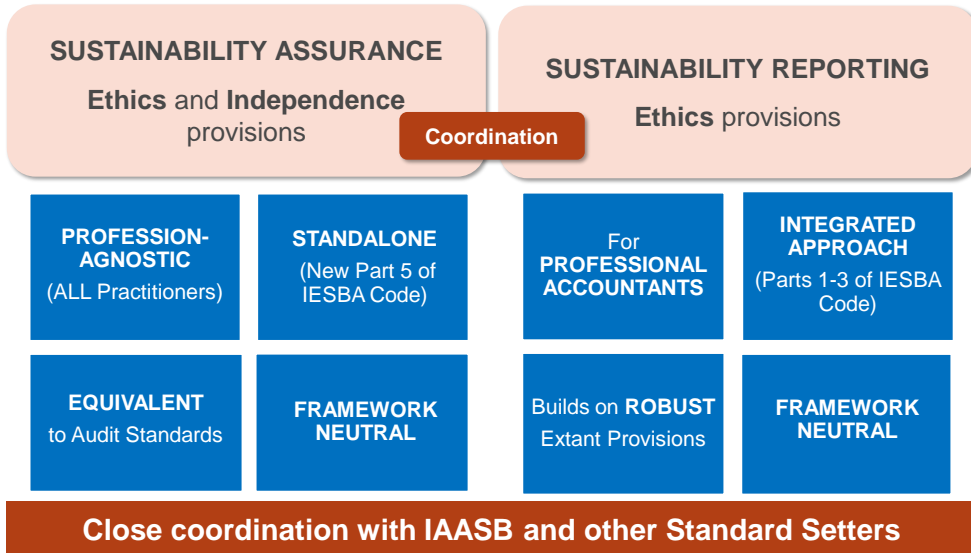
Sustainability and Use of Experts



IESBA Sustainability Journey



Sustainability Exposure Draft



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Outreach and Timeline



- Ongoing public consultation

- Global webinars and other local / regional webcasts
 - 3 global webinars and webinars in partnership with UNCTAD and local regulators



- Outreach with key stakeholders
- In-person seminars



- Targeted discussions with wide range of stakeholder groups representing regulators, standard setters, investors, preparers and assurance providers (including PAs and non-PAs)
- 5 locations (Toronto, Brussels, Tokyo, Sydney and Melbourne)

- IESBA will consider and discuss key comments and way forward in June and September 2024

- Close coordination with IAASB

- Approval of final standards in December 2024



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Initial Feedback: Toronto and Brussels Seminars

- Ethics recognized as critical plank in sustainability ecosystem
 - Key instrument to avoid greenwashing and other unethical behavior
- Concerns re fragmentation between global and national standards, viewed especially in the EU context
 - Suggestions for further coordination to ensure interoperability
- Strong support for ethics and independence standards addressing group sustainability assurance engagements
 - But need for close coordination with IAASB stressed
 - Concerns re familiarity of non-PAs with group audit concepts
- Questions re approach and application of independence requirements regarding value chain entities
 - Recognize different context of value chain reporting vs historical financial reporting
 - Application of “knows or has reason to believe” principle

More than 70 senior-level participants representing diverse stakeholders

Combination of panel discussions and Q&As

Focus on selected key issues

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Tax Planning Rollout



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Tax Planning and Related Services

- First global ethics standard on tax planning
 - Significant advance in public interest
- Sets a global benchmark to drive consistent ethical behavior with respect to tax planning
- Clear and robust principles and comprehensive guidance for navigating tax planning ethical dilemmas
- Raises bar of ethical behavior among PAs
 - Given lack of comprehensive, authoritative global provisions addressing ethical behavior in tax planning today

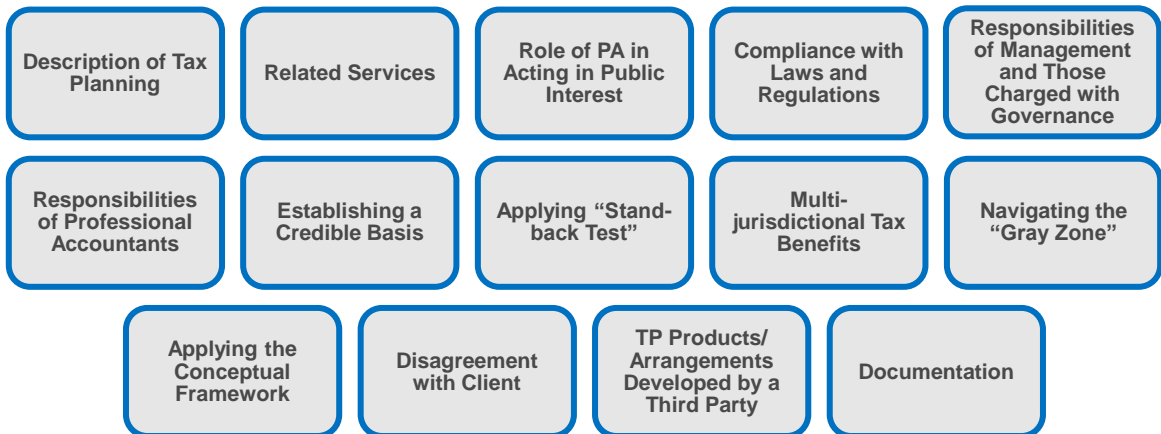


<https://www.ethicsboard.org/publications/final-pronouncement-revisions-code-addressing-tax-planning-and-related-services>

Effective for tax planning activities beginning after June 30, 2025

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Overview of Standard (PAPPs)

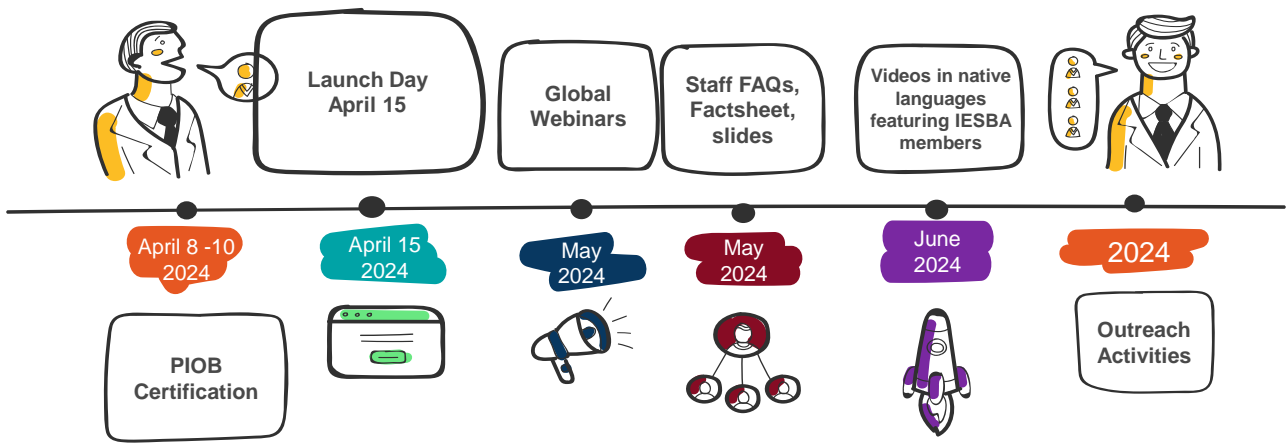


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Tax Planning: Roll-out Plan



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Questions and Comments



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