

## CPA Australia Response to [IESBA Strategy Survey](#)

This submission was made online, in response to an online survey on the IESBA website: [IESBA's Future Strategy and Work Plan Survey \(alchemer.com\)](#)

The consultation document is titled: ***Survey on the IESBA's Future Strategy and Work Plan***

See below:

### IESBA's Future Strategy and Work Plan Survey

Thank You!

Thank you for taking our survey. The IESBA will consider a full analysis of the responses received at their September 2022 meeting.

100%

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.

Global developments in sustainability reporting and assurance are of critical importance to the accounting profession and to society at large. The need to ensure that the profession is well placed to respond to the challenges and opportunities presented cannot be overstated. Hence, the IESBA should place a high level of importance and strategic focus on this topic.

However, feedback from our members suggests that the IESBA should carefully consider how it responds through standard setting action. That is, our members are concerned with the increasing length of the *Code of Ethics for Professional Accountants* (the "Code") and the move to continually add new requirements to the Code, rather than rely on developing and providing non-authoritative guidance and other materials.

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?***

It is unclear what "expanding the scope of the Code" would entail, which makes it difficult to provide a detailed response to this question.

However, we caution against making wholesale changes to the Code merely to potentially "capture" a small group of assurance providers. It must be remembered that the vast majority of professional accountants, who are subject to the Code, do not provide audit and assurance services. In Australia, for example, the APESB has previously calculated that some 93 per cent of professional accountants who are subject to the Code in Australia do not provide auditing and assurance services.

Therefore, it is difficult to argue a case for changing the scope of the Code – and potentially reshaping the focus of it – when such a change is not needed for the majority of those to whom it applies.

Also, arguably, the Code is already being used effectively in certain circumstances by assurance service providers other than professional accountants in public practice. The IESBA has a very narrow scope, inasmuch as it describes the Code as being written for members of IFAC member bodies. However, for example, the Australian equivalent of the Code is referenced by Australian Auditing Standards that are used by Registered Company Auditors (RCAs) who undertake Corporations Act, including listed entity, audits in Australia. There is no requirement for RCAs in Australia to be a professional accountant, as defined by IESBA. Therefore, in effect, RCAs include some assurance service providers other than professional accountants in public practice.

***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?***

As noted above, the vast majority of professional accountants, who are subject to the Code, do not provide audit and assurance services.

Therefore, it is important that the IESBA is cognisant of the users of the Code and those who are obliged to comply with the Code's requirements.

It is conceivable that if the Code's provisions, in certain parts of the Code, were scoped so as to focus on the "nature" of the assurance services provided, all parts of the Code would similarly need to be refocused on the services provided, rather than the type of person to whom the Code applies. This implies that a significant recasting of the Code would be needed; something which many people would not support. Moreover, it also implies that the Code would, by necessity, become much more prescriptive in nature.

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

It is important that the IESBA keeps in mind the fact that discussions about organisational and economic sustainability involve matters that extend beyond merely reporting and assurance. Moreover, they extend beyond merely the "E" (environmental) in Environmental, Social and Governance.

For example, in many jurisdictions the experience and skills of professional accountants are critical to ensure that organisations' governance, risk management and control arrangements are robust and effective. Moreover, there is an increasing demand for organisations to demonstrate that they have a "social licence to operate", with the clearest examples of that being in terms of corporate responsibilities for, and responses to, modern slavery and human rights obligations.

This has important implications for the roles of those professional accountants who are not involved in the reporting and assurance process. Moreover, it means that professional accountants' interactions with key stakeholders and the public at large, beyond the relationships formed through the reporting and assurance of information (e.g., employees), need to be considered.

**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 issues<sup>1</sup> and explain your reasoning.**

<sup>1</sup> 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.

It is not clear what the IESBA proposes in terms of “raising the bar” of ethical behaviour for professional accountants in business. What are the specific areas of focus for the IESBA in this regard?

It is recognised that the role of professional accountants employed in a business is extremely complex, especially when the Code imposes obligations upon them which are not imposed upon their fellow workers. Additionally, there are inherent challenges with professional accountants complying with certain requirements, such as NOCLAR, in a business setting.

In undertaking work in this space, it is incumbent on the IESBA to liaise and work closely with other appropriate organisations, such as for example, associations representing governance experts and company directors.

Moreover, as noted in response to earlier questions, the IESBA should be looking at providing non-authoritative guidance rather than adding more requirements to the Code.

**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.**

An ongoing focus on auditor independence is potentially damaging to the global acceptability and implementation of the Code. Arguably, it also does little to address the fundamental issue of audit quality.

For the last twenty years there have been continual changes to auditor independence requirements – with each subsequent change being made before any assessment of the impacts of the previous change has been undertaken. That is, there is little or no evidence available on whether the ongoing frequent changes being made to independence requirements are having any impact on audit quality.

A logical and sensible solution is for the IESBA to introduce a five-year (at least) moratorium on changes to Parts 4A and 4B of the Code.

After that moratorium period the IESBA should undertake a thorough assessment of the impacts of the independence requirements, and the most recent changes, on audit quality. Only after having undertaken that assessment and having clear evidence that further revisions to the independence requirements are needed, should the IESBA embark on further changes.

Additionally, having a moratorium on changes to auditor independence requirements would ensure that the IESBA does not inadvertently take an “auditor-independence-first” approach to changes to the Code, which has direct implications for other parts of the Code.

**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.**

It is difficult to conceive what this might entail on the part of the IESBA, other than the development and publication of targeted non-authoritative guidance and support materials. If this is what is being proposed by the IESBA, then it should ensure that focus is given to these activities.

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

As noted previously, our members are concerned with the increasing length of the Code and the continual addition of new requirements to the Code, rather than developing and providing non-authoritative guidance and other materials. Our members have advised us of challenges with the potential ongoing relevance of the Code and the ability to implement – and train and teach others about – the Code. With reference to the response to Question 2, members have also expressed concerns about the impact on the operability of the Code if the scope of the Code was to be expanded.

The challenges noted by our members largely stem from the:

- ongoing addition of numerous new requirements in the Code, when guidance may be all that is needed; given that the fundamental principles and conceptual framework are typically sufficient for professional accountants to reach the “right” outcomes
- inconsistencies and confusion that appear to be created with the addition of new requirements
- overall length of the Code
- seemingly over-emphasis and over-focus on auditor independent requirements.

Moreover, our members make the following points:

- most professional accountants – who are appropriately skilled and competent – will reach the “right” outcome by applying the relevant fundamental principles and the Code’s conceptual framework
- complying with the Code becomes most challenging – for many, virtually impossible – given that Paragraph 9 of the Code states that “*Complying with the Code requires knowing, understanding and applying...all of the relevant provisions....*”
- that a significant problem created by the growing number of requirements in the Code is that it has created potential inconsistencies and contradictions within the Code (For example, the inconsistency between Section 120 (the conceptual framework) of the Code and the new paragraph R600.16, which seems to imply that Section 120 does not apply in such circumstances).

Ultimately, all of these factors will lead to reduced global adoption of the Code.

**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.**

There are no other matters that have not been mentioned above, or on which the IESBA is not already working, that we believe should be considered at this time.

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

Please rate each topic listed above 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.

**How would you rate this topic as a strategic priority on a scale of 1 – 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.**

**Definitions and descriptions of terms:** A thorough review of all definitions and descriptions across the more than 300 pages of the Code is needed to ensure that any potential inconsistencies are identified and addressed. A most obvious example relates to the inconsistency between Section 120 (the conceptual framework) of the Code and the new paragraph R600.16, which seems to imply that Section 120 does not apply in such circumstances.

**Non-authoritative material:** As reflected in our responses to previous questions, we believe there is scope for the IESBA to focus more on non-authoritative guidance for several of the projects that are currently underway, and which are being considered as part of this strategy consultation. The IESBA should take an approach that considers whether additional requirements are needed for certain aspects, and whether the fundamental principles and conceptual framework are sufficient for professional accountants to reach the “right” outcomes.

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.

One topic that is not covered in this survey, but which is an important topic that is being considered as part of a current ongoing project, is the impacts of technology on ethics, and ethics on technology. It is important that the IESBA continues to give work in this area a high priority.

Moreover, the IESBA should consider the interactions and relationships between the use of technology and its impacts, and ESG matters including sustainability reporting. It is challenging to consider these topics in isolation, or indeed to treat them as being mutually exclusive. The critical use of technology in essential (for sustainability reporting) scenario analyses, risk assessments, and preparing forward-looking measurements and disclosures etc., and the ethical impacts of these activities, cannot be overstated.

Please note: About this submission:

CPA Australia represents the diverse interests of more than 170,000 members working in 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

This submission is informed by CPA Australia members and experts who participate in the organisation's Ethics and Professional Standards Centre of Excellence (CoE). CoEs are management advisory groups that provide members' and experts' views on CPA Australia's policy positions and advocacy activities.