



# Professional Ethics Executive Committee

Open meeting agenda

August 3, 2022

Virtual



## Open meeting agenda — August 3, 2022

Professional Ethics Division

Professional Ethics Executive Committee

<p>Meeting link: <a href="https://aicpa.zoom.us/j/92995021864">https://aicpa.zoom.us/j/92995021864</a></p> <p>Meeting ID: 929 9502 1864</p> <p>Observers must register: <a href="http://www.aicpa.org/peecmeeting">www.aicpa.org/peecmeeting</a></p>		
10:00–10:05 EDT	<p><b>Welcome</b></p> <p>Mr. Lynch will welcome the committee members and discuss administrative matters.</p>	
10:05–10:20	<p><b>Statements on Standards for Tax Services</b></p> <p>The task force will provide the committee with an update on the project.</p>	
10:20–11:05	<p><b>Information systems services</b></p> <p>The task force will provide an overview of the virtual roundtable workshop discussions and seek input on additional member enrichment material.</p>	Agenda items 1A–1B
11:05–11:50	<p><b>IESBA convergence: Fees</b></p> <p>The task force will seek input on the task force’s proposed approach.</p>	Agenda items 2A–2B
11:50–12:00	<p><b>Officers, directors, and beneficial owners</b></p> <p>Staff will seek adoption of the revisions to the code to reflect the scope revision in the loan guidance to other areas of the code.</p>	Agenda items 3A–3B
12:00–1:00	<p><i>Break before afternoon session</i></p>	
1:00–1:30	<p><b>Assisting attest clients with implementing accounting standards</b></p> <p>The task force will seek input on the proposed update to the nonattest services Q&amp;A.</p>	Agenda items 4A-4B

1:30–1:50	<p><b>Public interest entities</b></p> <p>The task force will seek input on its proposed approach for converging with the IESBA's public interest entity guidance.</p>	Agenda items 5A-5B
1:50–2:10	<p><b>IESBA convergence: Engagement quality reviewer</b></p> <p>The task force will seek approval to pursue the development of non-authoritative guidance.</p>	
2:10–2:30	<p><b>Simultaneous employment or association with an attest client</b></p> <p>The task force will seek input on the task force's planned approach.</p>	
2:30–2:40	<p><b>Compliance audits</b></p> <p>The task force will provide an overview of the planned member enrichment materials to help with implementation.</p>	
2:40–2:50	<p><b>Noncompliance with laws and regulations</b></p> <p>The task force will provide an overview of recent activities.</p>	
2:50–3:05	<p><b>IESBA update</b></p> <p>Staff will provide an update on IESBA's activities.</p>	Agenda items 6A-6G
3:05–3:15	<p><b>AICPA online ethics library</b></p> <p>Staff will demonstrate the new online ethics library.</p>	
	<p><b>Future meeting dates</b></p> <p>November 10–11, 2022</p> <p>February 21–22, 2023</p> <p>May 9–10, 2023</p> <p>August 9–10, 2023</p> <p>November 8–9, 2023</p>	

## Information systems services

### Task force members

Anna Dourdourekas (chair), Cathy Allen, Danielle Cheek, John Ford, Katie Jaeb, Alan Long, Nancy Miller, Dan O'Daly,

### Observers

Brandon Mercer, Kimberly M. Kuhl, SanDee Priser

### AICPA staff

Liese Faircloth, Ellen Gorla, Iryna Klepcha

### Task force charge

To develop nonauthoritative guidance to assist members with implementing the “Information Systems Services” interpretation (1.295.145) which is effective January 1, 2023.

### Reason for agenda item

To provide the committee with an overview of the feedback received during the roundtable workshops and to seek input on the task force’s recommendations on how to address some of the concerns expressed during these sessions. The task force also seeks input on the Qs & As in agenda item 1B.

### Task force activities

The task force discussed the feedback from the three roundtable workshops and recommends developing nonauthoritative guidance as outlined in the following sections of this agenda item.

At a high level, the feedback requested additional guidance on

- what constitutes a management responsibility.
- why operating or managing a help desk impairs independence.
- what other systems might qualify for the discrete tool exception.
- what network monitoring activities would not impair independence when a commercial off the shelf (COTS) tool is used to monitor patch application.
- application of the interpretation when the member resells third-party software.

### Task force recommendations

1. The task force recommends releasing a limited Ethically Speaking series of two to three episodes on the “Information Systems Services” interpretation. These episodes will cover the education provided in the workshops and address some of the major issues attendees

brought up during the breakout sessions:

- a. An overview of the general requirements when providing nonattest services, including the following:
    - i. An explanation of why PEEC concluded that operating or managing the attest client's information technology help desk results in assuming a management responsibility
    - ii. A clarification regarding differences between a help desk and other services, such as tax services and bookkeeping services
    - iii. Examples of when applying patches impairs independence and when it does not
    - iv. A discussion on how software, such as leasing software, may and may not qualify for the discrete tool exception
  - b. A discussion of help desk topics, including these:
    - i. An explanation of why ongoing services create the management participation threat similar to internal audit services in accordance with the "Internal Audit" interpretation ([ET sec. 1.295.030](#))
    - ii. An explanation that regardless of the underlying issue of IT tickets or whether IT staff has no accounting experience or the services are performed by lower-level staff, outsourcing a help desk by an attest client to a member impairs independence.
    - iii. An explanation that if a tier of a help desk is outsourced, independence would be impaired.
    - iv. An example of applying patches will be discussed, noting that members need to use their professional judgement to evaluate the scope and frequency of the services, to determine if the firm has assumed management responsibilities.
2. The task force recommends PEEC appoint a new task force to evaluate whether additional authoritative or nonauthoritative guidance related to the "Management Responsibilities" interpretation ([ET sec. 1.295.030](#)) is warranted.

There is some misunderstanding of what management responsibilities are, specifically a distinction between performance of management functions and activities versus making management decisions. Common feedback indicates that members need guidance on why bookkeeping services are permissible but operating or managing the attest client's

information technology help desk is not. Though certain activities that fall under bookkeeping services are permissible, managing a bookkeeping function of an attest client impairs independence.

3. The task force recommends issuing three Qs & As to provide guidance on the some of the issues identified during the roundtables:
  - a. Provide examples of activities that indicate that the member may or may not be operating or managing an IT help desk for an attest client.
  - b. Explain that hypercare is part of an implementation engagement.
  - c. Provide examples of activities that indicate that the member's professional services related to performing network maintenance will or will not result in the member assuming a management responsibility.

See agenda item 1B for the draft Qs & As.

4. To elevate awareness that Qs & As on cybersecurity services exist, the task force recommends a link to paragraphs .03 and .04 of [Q & A section 217](#) "Nonattest services – Advisory Services" be added to the nonauthoritative box at the end of the interpretation. In addition, the task force recommends a link back to the "Information Systems Services" interpretation be added to these two Qs & As.
5. The task force believes reselling third-party software goes beyond the scope of the "Information System Services" interpretation. The task force believes it is unclear which interpretations members should consider and how to apply the guidance when a member resells third-party software.

Further, the "Sale of Products to Clients" interpretation ([ET sec. 1.520.060](#)) indicates that if a member purchases a product, taking title to the product and assuming all the associated risks of ownership, any profit the member receives on reselling it to a client would not constitute a commission. The guidance is not explicit regarding situations when a member does not assume all the associated risks of ownership. One such situation the task force discussed involved markups charged by a member that are within a reasonable industry range.

The task force recommends PEEC appoint a new task force to determine if clarification is warranted.

6. Item (c) of paragraph 06 of the "Information Systems Services" interpretation provides that when determining whether a nonattest service is related to an FIS, members should consider all relevant factors, such as whether the nonattest service will affect "a data-

gathering system, such as an analytical or reporting tool, that is used in management's decision-making about matters that could significantly affect financial reporting". The task force recommends issuing additional nonauthoritative guidance to clarify how to apply this guidance to dashboards.

#### Questions for the committee

1. Does the committee believe a new task force should be appointed to determine what additional guidance, if any, is needed related to the "Management Responsibilities" interpretation?
2. Does the committee believe a new task force should be appointed to determine what guidance, if any, should be developed to clarify what guidance members should apply when reselling a third-party solution and whether the markup is considered a commission?
3. Does the committee have any suggestions on the proposed Qs & As?
4. Does the committee have any suggestions on additional topics that should be covered in the Ethically Speaking episodes?

#### Materials presented

- Agenda item 2B: Proposed nonauthoritative Qs & As on the "Information Systems Services" interpretation

## Proposed nonauthoritative Qs & As on the “Information Systems Services” interpretation

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you’d like to see the definitions, you can find them in “Definitions” ([ET sec. 0.400](#))

### Q&A Section 250

#### *IT help desk*

##### Inquiry

Item (d) in paragraph .21 of the “Information Systems Services” interpretation (ET sec. 1.295.145) provides that operating or managing the attest client’s IT help desk results in the member assuming a management responsibility and, therefore, independence is impaired.

Users contact an IT help desk with requests, such as getting answers to questions or resolving issues. Requests can range from common simple questions for which an answer can be scripted to more complicated issues that may require escalations to a higher level of expertise within the help desk function. What should a member consider when evaluating whether these professional services would involve a member assuming management responsibilities?

##### Reply

*Members* should use professional judgment when determining if the *attest client* outsourced an ongoing function, process, or activity to the *member* that resulted in the *member* assuming a management responsibility. If the *member* takes responsibility for the service, performs a management function, makes decisions on behalf of the *attest client*, or is part of the *client’s* internal control system, the management participation *threat* will be so significant that no *safeguards* can reduce the *threat* to an *acceptable level*, and *independence* will be *impaired*.

Operating or managing all or a portion of an *attest client’s* IT help desk *impairs independence* because the *member* assumes a management responsibility for an *attest client*. However, assisting the *attest client* with discrete activities that fall within the *client’s* operations or management of an IT help desk does not necessarily mean that the *member* is performing a management responsibility.

This table provides examples of activities that indicate that the *member* may or may not be operating or managing a help desk for an *attest client*.

Activities that indicate that a <i>member</i> is not assuming a management responsibility	Activities that indicate that a <i>member</i> is assuming a management responsibility
<p>The <i>member</i> provides assistance on a limited and infrequent basis. Examples of such activities include the following:</p> <ul style="list-style-type: none"> <li>• The <i>member</i> is engaged to provide recommendations on new system applications, and management decides which recommendations of the <i>member</i> to implement or prioritize.</li> <li>• The <i>member</i> is engaged to assess the <i>attest client's</i> IT help desk approach and provide recommendations.</li> </ul> <p>The <i>member</i> is engaged on an ad hoc basis to assist management with a discrete project. Examples of such activities include the following:</p> <ul style="list-style-type: none"> <li>• The <i>member</i> assists the <i>attest client</i> with troubleshooting or resolving complex IT issues that were identified through the <i>attest client's</i> help desk.</li> <li>• The <i>member</i> develops and provides training to <i>attest client</i> personnel on a software solution.</li> <li>• When assisting the <i>attest client</i> with a discrete IT issue involving a third-party technology solution, the <i>member</i> communicates with the third-party regarding the specific matter.</li> </ul>	<p>The <i>member</i> is contractually obligated to support the operation of the <i>attest client's</i> IT help desk for a certain period on a continuous basis. Examples of such activities include the following:</p> <ul style="list-style-type: none"> <li>• The <i>attest client</i> engaged the <i>member</i> to operate or manage the <i>client's</i> help desk.</li> <li>• The <i>member</i> is responsible for overseeing and resolving one or more types of IT issues under a specific tier level of the IT help desk.</li> <li>• The <i>member</i> is responsible for supervising employees in the <i>attest client's</i> IT help desk group.</li> <li>• The <i>member</i> is responsible for managing IT help desk tickets; that is., the <i>member</i> routes support requests submitted by the <i>attest client's</i> employees and resolves IT help desk issues.</li> <li>• The <i>member</i> supervises the <i>attest client's</i> IT personnel.</li> <li>• The <i>member</i> is responsible for coordinating the <i>attest client's</i> support needs with the <i>attest client's</i> third-party IT vendors.</li> </ul> <p>The <i>member</i> has ongoing responsibility as the direct point of contact for employee IT</p>

	assistance with software and hardware issues <sup>1</sup> .
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As a reminder, the *member* should comply with

- all the requirements of the “Nonattest Services” subtopic, including the “Cumulative Effect on Independence When Providing Multiple Nonattest Services” interpretation (ET sec. 1.295.020), and
- the “Staff Augmentation Arrangements” interpretation (ET sec. 1.275.007).

### *Hypercare*

#### Inquiry

Under the “Information Systems Services” interpretation, is postproduction stabilization support (that is, hypercare) considered implementation services or post-implementation services?

#### Reply

Hypercare is part of the final stage of an implementation project, not a post-implementation activity, and should last for only a reasonably short period of time, which depends on the scope and complexity of the implemented system. In any event, *members* should use professional judgment when determining what a reasonable period of time would be for the specific *client* and software. Providing hypercare for a commercial off-the-shelf (COTS) financial information system (FIS) software solution to assist the *attest client* with software implementation issues does not *impair independence* provided the requirements of the “Nonattest Services” subtopic are met.

### *IT network maintenance and updates*

#### Inquiry

Item (c) in paragraph .21 of the “Information Systems Services” interpretation provides that *independence* will be *impaired* if the *member* has responsibility to perform ongoing network maintenance, such as updating virus protection solutions, applying routine updates and patches, or configuring user settings.

What should a member consider when evaluating whether professional services would involve

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<sup>1</sup> In the course of providing permitted services, the *member* may be asked to assist the *attest client* with a one-off technology troubleshooting task that is not directly related to the permitted services being provided, such as assisting with a printer paper jam. Performing such a task would generally not result in accepting a management responsibility.

that member assuming management responsibilities?

Reply

*Members* should use professional judgment when determining whether the *attest client* outsourced an ongoing function, process, or activity to the *member* that resulted in the *member* assuming a management responsibility. If the *member* takes responsibility for the service, performs a management function, makes decisions on behalf of the attest client, or is part of the client’s internal control system, the management participation *threat* will be so significant that no *safeguards* can reduce the *threat* to an *acceptable level*, and *independence* will be impaired.

Being responsible for the ongoing network maintenance of the *attest client* *impairs independence* because the *member* assumes a management responsibility. However, the *member* may assist the *attest client* with the network maintenance on an ad hoc basis without *impairing independence*, provided all the requirements of the “Nonattest Services” subtopic are met.

This table provides examples of activities that indicate that the *member’s* professional services related to performing network maintenance (such as updating virus protection solutions, applying routine updates and patches, or configuring user settings) will or will not result in the *member* assuming a management responsibility.

Activities that indicate that a <i>member</i> is not assuming a management responsibility	Activities that indicate that a <i>member</i> is assuming a management responsibility
<p>The <i>member</i> provides support on a limited and infrequent basis as requested by management. The scope and frequency of ad hoc engagements are a matter of judgement. For example, the <i>member</i> set up a server for the <i>member’s attest client</i> and configured the settings to enable automatic updates for the server in conformance with the “Information Systems Services” interpretation. The <i>attest client</i> later engages the <i>member</i> to assist with resolving an issue identified by the <i>client</i> related to a subsequent automatic update.</p> <p>The <i>attest client</i> is responsible for preventing, identifying, evaluating and resolving issues. For example, a <i>member</i> may install and configure a third-party network monitoring software solution on the client’s designated</p>	<p>The <i>member</i> is contractually obligated for performing ongoing network maintenance for a certain period on a continuous basis. Examples of such activities include the following:</p> <ul style="list-style-type: none"> <li>• The <i>attest client</i> does not have a process of its own or through a third-party vendor to conduct network maintenance tasks (e.g., preventing issues, identifying issues and determining a course of action to resolve issues) on a day-to-day basis and relies on the <i>member</i> to perform those tasks.</li> <li>• The <i>member</i> provides ongoing preventative maintenance tasks without a</li> </ul>

<p>hosting site for the system to be monitored by the client without impairing independence if the <i>client</i> is responsible for: monitoring the network, evaluating the information received from the software solution and determining the course of action.</p> <p>The <i>member</i> reaches out to the <i>attest client</i> to notify them of a major third-party software update as part of the <i>member's</i> sales effort.</p> <p>On an ad hoc basis, the <i>member</i> provides advice and recommendations related to an issue identified by the <i>attest client</i>. For example, the <i>attest client</i> engages the <i>member</i> to analyze the information provided by an IT automated tool and provide recommendations on a course of action. Management decides which recommendations of the <i>member</i> to implement or prioritize.</p>	<p>request by management.</p> <p>The <i>member</i> is responsible for monitoring the <i>attest client's</i> IT controls. For example, the <i>member</i> provides ongoing monitoring of the <i>attest client's</i> network through an automated tool to identify and resolve issues that come to the <i>member's</i> attention.</p> <p>The <i>member</i> decides what actions should be taken to resolve issues without the <i>attest client's</i> review and approval. For example, the <i>attest client</i> uses an automated tool that monitors the network. When the <i>attest client</i> receives an alert from the tool, they send it to the <i>member</i> to resolve.</p>
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As a reminder, the *member* should comply with

- all the requirements of the “Nonattest Services” subtopic, including the “Cumulative Effect on Independence When Providing Multiple Nonattest Services” interpretation (ET sec. 1.295.020),
- the “Staff Augmentation Arrangements” interpretation (ET sec. 1.275.007).

## IESBA convergence: Fees

### Task force members

Alan Long (chair), Anika Heard, Kathy Savage, Peggy Ullmann

### Observers

Sonia Araujo, Brandon Mercer, Jan Neal

### AICPA staff

Sarah Brack, Ellen Gorla, Iryna Klepcha, Summer Young

### Task force charge

To develop a principles-based framework for members to determine when the level of fees and fee dependency impair independence.

### Reason for agenda item

To request (a) the committee's input on proposed authoritative guidance the task force developed as an IESBA convergence project and (b) responses to specific questions posed below. The wording of the proposed authoritative guidance is consistent with the IESBA standard and has not been edited for tone-of-voice or the AICPA's drafting conventions. The task force is asking only for comments on substantive content at this time.

The objective of IESBA's Fees project was to review the provisions in the IESBA code pertaining to fee-related matters ([final standard](#) and [basis for conclusions](#)). IESBA's revisions to their independence guidance for fee-related provisions include the following:

- A prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client
- For audit clients that are public interest entities (PIEs), a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period
- For PIE audit clients, communication of fee-related information to those charged with governance (TCWG) and to the public to assist their judgments about auditor independence
- Enhanced guidance on identifying, evaluating, and addressing threats to independence

The task force is not addressing revisions that are specifically for PIEs until PEEC decides what convergence actions to take on the revised definition of PIE.

## Task force activities

Staff first performed a gap analysis and the task force met several times to evaluate the differences between the new IESBA guidance and the AICPA's extant guidance. The gap analysis informed the task force's consideration of areas where authoritative or nonauthoritative guidance is necessary to achieve convergence. The task force also determined that there are areas where convergence is not necessary.

## Recap of preliminary conclusions

### *Authoritative guidance*

The task force recommends two new interpretations in the "Fees" section (ET sec. 1.230) of the code to add these requirements:

- A firm shall not allow the fee for attest engagements to be influenced by the provision of nonattest services but may allow the firm to consider the cost savings derived from the provision of nonattest services to the attest client.
- A firm must determine whether the fees from an attest client are at a level where the self-interest and undue influence threats are significant enough that safeguards must be applied.
  - Rather than using IESBA's 30 percent threshold, the task force recommends using the principles-based discussion in chapter 10 of the [AICPA's Plain English guide to independence](#) (PEG) to address threats .
  - Specific thresholds are not operationally sound. As well, applying specific thresholds could have an anti-competitive effect, especially for smaller firms. This could result in challenges to the new guidance under U.S. antitrust laws.

The AICPA is substantially converged with regard to contingent fees and is, in fact, more restrictive than IESBA. The Unpaid Fees Task Force evaluated the changes IESBA made with regard to overdue fees and the AICPA issued new guidance earlier this year.

### *Nonauthoritative guidance*

The task force will incorporate into chapter 10 of PEG application guidance on what threats may exist when fees are paid by the client and factors that may help a member's evaluation of threats.

### Draft guidance

Staff prepared an outline for two new interpretations using the text of IESBA's standard and the fee-related section of chapter 10 of the PEG as the starting point. The fee-related guidance in chapter 10 of PEG is strong guidance, the use of which compensates for not including the specific threshold of the IESBA standard.

The term "large proportion" in the draft "Fee Dependency" interpretation is relevant to this

consideration. The proposal is to replace IESBA's 30 percent threshold with the term "large proportion" and to add guidance on determining what constitutes a large proportion is in paragraph .03 of the draft interpretation.

Some application guidance from the IESBA standard is incorporated into the draft interpretations because that content is important to the practitioner's understanding and the judgements that the proposed guidance requires them to make.

The consideration of whether the fees constitute a large proportion center on the amount of fees the firm receives, which is consistent with IESBA. Though the AICPA doesn't have jurisdiction over firms, practically speaking, this is the level at which decisions will be made.

Considerations of other subdivisions where evaluations of threats should be made are included in paragraph .03 of the draft "Fee Dependency" interpretation. The inclusion of "practice unit" in paragraph .03 as a subdivision for determining the significance of fees is in addition to the IESBA standard and comes from the guidance already published in PEG.

The requirement in paragraph .05 of the draft "Fee Dependency" interpretation deviates in wording from IESBA's requirement in paragraph R410.15. This paragraph doesn't explicitly say that one of the safeguards must be applied or independence is impaired. However, question 14 in [IESBA Staff Questions and Answers Revised Fee related Provisions](#), clarifies that consistent with the requirements to apply the conceptual framework, if the firm concludes that neither of the provided actions would be a safeguard, independence will be impaired.

*Questions for the committee*

1. Do you agree that the scope of engagements covered by the interpretations should be all attest engagements? The IESBA standard imposes requirements only on audits and reviews of financial statements.
2. Do you agree with the use of *covered member* as the level of individual responsible for complying with the requirements?

**Materials presented**

- Agenda item 2B: Preliminary draft interpretations

## Preliminary draft interpretations

### 1.230.030 Level of Fees

- .01 For the purposes of this interpretation, fees comprise fees or other types of remuneration for an attest engagement.
- .02 Determining the fees to be charged to an attest client, whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.
- .03 When determining the attest engagement fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of nonattest services to an attest client.
- .04 The provision of other services to an attest client is not an appropriate consideration in determining the attest engagement fee, except as provided for in paragraph .03. If a covered member allows the attest engagement fee to be influenced by the provision of nonattest services to an attest client by the firm, the self-interest and undue influence threats to the covered member's compliance with the "Independence Rule" [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.

#### Large Proportion of Fees Generated by Nonattest Services

- .05 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm to an attest client is generated by providing nonattest services to the client, due to concerns about the potential loss of either the attest engagement or other services. Such circumstances might also create an undue influence threat. A further consideration is a perception that the firm focuses on the nonattest relationship, which might create a threat to the covered member's independence. Factors that are relevant in evaluating the level of such threats include:
  - a. The ratio of fees for nonattest services to the attest engagement fee
  - b. The length of time during which fees for nonattest services have constituted a large proportion of the total fees compared to the attest engagement fee
  - c. The nature, scope and purposes of the nonattest services, including

- i. whether they are recurring services
- ii. whether law or regulation mandates the services to be performed by the firm

.06 If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level. Application of more than one safeguard may be required to eliminate or reduce threats to an acceptable level. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired. Examples of actions that might be safeguards include the following:

- a. Having an appropriate reviewer who does not take part in the attest engagement assess the reasonableness of the proposed fee, considering the full scope and complexity of the engagement
- b. Having an appropriate reviewer who did not take part in the attest engagement review the work performed

## 1.230.040 Fee Dependency

- .01 When the total fees generated from an attest client by the firm represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from attest and other services from that client impact the level of the self-interest threat and create an undue influence threat to a covered member's independence.
- .02 In calculating the total fees of the firm, the covered member should include fees from attest and nonattest services and might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- .03 The covered member should use professional judgment, considering the following qualitative and quantitative factors, to evaluate whether fees from an attest client represent a large proportion:
  - a. The size of the attest client, in terms of the percentage of fees or the dollar amount of fees versus total revenue of the firm, engagement partner, office, or practice unit of the firm
  - b. The significance of the client to the firm, engagement partner, office, or practice unit of the firm in light of the following:
    - i. The amount of time the firm, partner, office, or practice unit devotes to the engagement
    - ii. The effect on the partner's stature within the firm due to the partner's relationships with the attest client
    - iii. The manner in which the partner, office, or practice unit is compensated
    - iv. The effect that losing the attest client would have on the firm, partner, office, or practice unit
  - c. The importance of the attest client to the firm's growth strategies (for example, the firm is trying to gain entry into a particular industry)
  - d. The stature of the attest client, which may enhance the firm's stature (for example, the firm is trying to gain entry into a particular industry)
  - e. Whether the firm also provides services to related parties (for example, professional services to affiliates or owners of the attest client)

- f. Whether the engagement is recurring
  - g. The operating structure of the firm
  - h. Whether the firm is expected to diversify such that any dependence on the audit client is reduced
- .04 If the covered member concludes that threats are not at an acceptable level, then the covered member should apply safeguards to eliminate the threats or reduce them to an acceptable level. Application of more than one safeguard may be required to eliminate or reduce threats to an acceptable level. If safeguards are not available or cannot be applied to eliminate or reduce the threats to an acceptable level, then independence would be impaired. Examples of actions that might be safeguards include the following:
- a. Having an appropriate reviewer who has not provided attest or nonattest services to the attest client review the attest work performed before the current-year attest report is issued
  - b. Reducing the extent of nonattest services provided to the audit client
  - c. Increasing the client base of the firm to reduce dependence on the client
  - d. Increasing the extent of services provided to other clients
  - e. Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client
  - f. Implementing policies and procedures to identify and monitor significant client relationships, including the following:
    - i. Consider client significance in the planning stage of the engagement.
    - ii. Base the consideration of client significance on firm-specific criteria or factors that are applied on a facts and circumstances basis (see paragraph .03).
    - iii. Periodically monitor the relationship. What constitutes periodic is a matter of judgment, but assessments of client significance that are performed at least annually can be effective in monitoring the relationship. During the course of such a review, a client previously deemed to be significant may cease to be significant. Likewise, clients not identified as significant could become significant whenever factors the firm considers relevant for identifying significant clients arise (for example, additional services are contemplated).

- g.* Assigning a second (or concurring) review partner who is not otherwise associated with the engagement and who practices in an office other than that of those who perform the attest engagement
  - h.* Subjecting the assignment of engagement personnel to approval by another partner or manager
  - i.* Periodically rotating engagement partners
  - j.* Subjecting significant client attest engagements to internal firm-monitoring procedures
- .05 When for each of five consecutive years, total fees from an attest client represent, or are likely to represent, a large proportion of the total fees received by the firm, threats to the covered member's compliance with the "Independence Rule" [1.200.001] would not be at an acceptable level and independence would be impaired unless one of the following safeguards is applied:
- a.* Prior to the attest report being issued for the fifth year, an appropriate reviewer who is not a member of the firm issuing the report, reviews the fifth year's work.
  - b.* After the attest report on the fifth year has been issued, and before the attest report is issued on the sixth year's attest report, an appropriate reviewer who is not a member of the firm issuing the report or a professional body, reviews the fifth year's attest work.
- .06 If the total fees described in paragraph .05 continue to represent a large proportion, the covered member shall, each year, apply one of the safeguards .05a or .05b.
- .07 When two or more firms are engaged to conduct an attest engagement, the involvement of the other firm in the attest engagement may be regarded each year as an action equivalent to that in paragraph .05a, if
- a.* the circumstances addressed by paragraph .05 apply to only one of the firms performing the attest engagement; and
  - b.* each firm performs sufficient work to take full individual responsibility for the report.

## Officers, directors, and beneficial owners

### AICPA staff

Ellen Gorla

### Reason for agenda item

To request adoption for updating the AICPA Code of Professional Conduct (code) to consistently reflect the scope revision in the loan guidance in other areas of the code.

### Background

During the [loans, acquisitions, and other transactions](#) project, references to “an officer or director or an attest client or an individual owning 10 percent or more of the attest client’s outstanding equity securities or other ownership interests” was replaced in three interpretations in the code, as follows:

[A]n officer or director of an attest client with the ability to affect decision-making and any individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client.

During the May 2022 meeting, PEEC approved proposed revisions to align the thresholds in the “Conceptual Framework for Members in Public Practice” (ET sec. 1.000.010) and interpretations addressing gifts and entertainment under the “Integrity and Objectivity Rule” (ET sec. 1.100.001 and 2.100.001) and the “Independence Rule” (ET sec. 1.200.001).

The comment period for the [exposure draft ended](#) on July 5, 2022. Staff received five [comment letters](#).

Though all support the proposals, one [commenter](#) expressed concern with the limited 30-day exposure period and recommends PEEC consider the needs of all stakeholders when issuing future exposure drafts. This commenter also recommends the definitions of “key position” and “significant influence” be included in all the interpretations with the revised threshold as they play such a pivotal role.

Staff does not recommend adding these definitions into the interpretations since they are already linked within the interpretation to the [“Definitions”](#) section (ET sec. 0.400) in the code.

### Gifts and entertainment

Staff recommends these proposed revisions be adopted with one revision to the interpretation under the “Integrity and Objectivity Rule.” The term “attest client” was used in error. Staff recommends the term “attest” be stricken as reflected in agenda item 3B.

### Action needed

The committee is asked to adopt the proposals with the one revision. Staff recommends these revisions be effective December 31, 2022, with early implementation allowed. This aligns the effective date of these revisions with the effective date of revisions from the loans, acquisitions, and other transactions project.

### Communications plan

Staff will work with Ms. Mullins to develop a communication plan.

### Materials presented

Agenda item 3B: Proposed revision

## Proposed revision

Proposed additions appear in **boldface italic**. Deletions appear in ~~strikethrough~~. Staff's proposed revision since the May meeting appears in red double-strikethrough.

### 1.120.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, a client includes the client, an individual in a key position with the client, or an individual ~~owning 10 percent or more of the client's outstanding equity securities or other ownership interests~~ **with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the ~~attest~~ client.**

[Paragraphs .02–.06 are unchanged.]

### 1.285.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, the attest client also includes an individual in a key position with the attest client and individuals ~~owning 10 percent or more of the attest client's outstanding equity securities or other ownership interests~~ **with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client.**

[Paragraphs .02–.06 are unchanged.]

### 1.000.010 Conceptual Framework for Members in Public Practice

[Paragraphs .01–.10 are unchanged.]

.11 Advocacy threat. The threat that a member will promote a client's interests or position to the point that his or her objectivity or independence is compromised. Examples of advocacy threats include the following:

- a. A member provides forensic accounting services to a client in litigation or a dispute with third parties.
- b. A firm acts as an investment adviser for an officer ~~or~~ a director **of the client with the ability to affect decision-making**, or a ~~10 percent shareholder of a client~~ **an individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client**
- c. A firm underwrites or promotes a client's shares.

- d. A firm acts as a registered agent for a client.
- e. A member endorses a client's services or products.

.12 Familiarity threat. The *threat* that, due to long or close relationship with a *client*, a *member* will become too sympathetic to the *client's* interests or too accepting of the *client's* work or product. Examples of familiarity threats include the follow:

- a. A *member's immediate family* or *close relative* is employed by the *client*.
- b. A *member's* close friend is employed by the *client*.
- c. A former *partner* or professional employee joins the *client* in a *key position* and has knowledge of the *firm's* policies and practices for the *professional services* engagement.
- d. Senior personnel have a long association with a *client*.
- e. A *member* has a significant close business relationship with an officer ~~or~~ a director **of the client with the ability to affect decision-making**, or a 10-percent shareholder of a ~~client~~ **an individual with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client**.

[Paragraphs .13–.24 are unchanged.]

## Assisting attest clients with implementing accounting standards

### Task force members

Jennifer Kary (chair), Nancy Beacham, Mike Brand, Jason Evans, Alan Long, Jim Newhard

### Observers

Vincent DiBlanda, John Ford, Erik Lange, Brandon Mercer

### AICPA staff

Liese Faircloth

### Task force charge

To provide guidance on how members may assist an attest client with implementing an accounting standard without impairing independence.

### Reason for agenda item

To seek the committee's input on the Q&A in agenda item 4B.

### Task force activities

The task force met after the May 2022 PEEC meeting to consider committee feedback on the proposed revision to a Q&A. The Q&A covers the "skill, knowledge, and/or experience" requirement in the nonattest services interpretations of the "Independence Rule" (ET sec. 1.200.001).

### Communications plan

A link to the Q&A will be added to the code at the end of the "Assisting Attest Clients With Implementing Accounting Standards" interpretation (ET sec. 1.295.113) and staff will explore an Ethically Speaking episode.

Question for the committee

Does the committee have any edits to the Q&A as presented?

### Materials presented

Agenda item 4B: Proposed revised Q&A – Examples of nonattest services and client understanding

## Proposed revised Q&A — Examples of nonattest services and client understanding

Proposed additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

### Examples of nonattest services and client understanding

*Inquiry* — What are some examples of nonattest services and the level of understanding that the individual designated by the attest client to oversee the nonattest services should possess in order to comply with the “General Requirements for Performing Nonattest Services” interpretation?

*Response* — Following are four examples along with the level of understanding required by each:

In the “Assisting clients with implementing accounting standards” section of this response, only changes made since the May meeting are tracked. However, the entire section is being added to the Q&A.

- *Assisting clients with implementing accounting standards* — When a *member* assists an attest client with ~~the implementation of~~ ***implementing*** an accounting standard, the *member* should be satisfied that the individual designated by the *attest client* ~~understands the standard so that the individual is able to accept responsibility for its implementation~~ ***has the appropriate skills, knowledge and/or experience***.

If the member believes the individual does not ***sufficiently*** understand the standard ~~enough~~, ***the potential impact on the financial statements, and the related processes and controls***, the member may provide training and ~~research to help that individual achieve the necessary understanding. The member should also be satisfied that the individual has the appropriate knowledge and experience to evaluate how best to implement the standard.~~ ***This training should occur prior to assisting the client with the implementation. After providing training, the member should assess whether the individual has sufficient knowledge to evaluate how best to implement the standard.***

Factors that may help a member determine if this individual has appropriate experience including whether the individual has experience implementing accounting standards and the individual’s understanding of the company’s accounting processes and controls.

**After the member is satisfied that the individual has suitable skill, knowledge and/or experience, the member may assist with evaluating the effects of adopting a new standard. Following are examples from the interpretation of activities that the member ~~To assist the individual, the member may also provide~~ might provide**

- analysis of the potential impact of implementing the accounting standard,
- ~~recommend~~**recommendations of** possible revisions to existing policies, procedures and internal controls, and
- ~~prepare~~**preparation of** transition-related calculations to illustrate the impact of the application of the accounting standard for management's consideration and selection.

[Added X 2022]

- *Bookkeeping* — When the member performs routine bookkeeping services for an attest client, the *member* should be satisfied that the individual designated by the *attest client* understands the basis for the proposed journal entries and how the posting of the journal entries will affect the *financial statements*. For recurring or standard journal entries (for example, depreciation), the individual designated by the *attest client* may require no explanation regarding the reason for the entry (for example, when the member has previously discussed these entries with the *attest client*), whereas for more complex journal entries (for example, deferred taxes), the member may need to have further discussions with the individual designated by the *attest client* discussing the underlying requirements and the basis for the entry and how the entry will affect the *financial statements*. For such services, the individual designated by the *attest client* must have the skills, knowledge, and experience to approve the proposed journal entries and accept responsibility for the company's individual designated by the *attest client*. **[Added prior to June 2005]**
- *Tax compliance services* — For tax return preparation engagements, the individual designated by the *attest client* need not have an in-depth understanding of the applicable tax laws. However, the individual designated by the *attest client* should review the tax return, understand and approve key tax positions taken or disclosed in the return, and approve the filing of the return. The *member* also should be satisfied that the individual understands the company's tax situation, has a general understanding of how the amounts on the tax return were determined, and make all decisions regarding significant tax positions taken in the return. **[Added prior to June 2005]**
- *Valuation services* — For more complex engagements, such as permitted valuation services, the *member* may need to explain to the individual designated by the attest

client the valuation methodologies used as well as all significant assumptions. The individual then should be in a position to approve all significant assumptions and accept responsibility for the resulting valuation. [Added prior to June 2005]

## Public interest entities

### Task force members

Lisa Snyder (chair), Cathy Allen, Greg Collins, Nancy Miller, Andrew Prather, Katherine Savage

### Observers

Alina Kalachnyuk, Brandon Mercer

### AICPA project staff

Jennifer Clayton, Ellen Goria

### AICPA monitoring staff

Jason Brodmerkel, Misty Brown, Mary Foelster, Ahava Goldman, Sue Hicks, Kim Kushmerick, Melinda Nolan, Ian MacKay, Ashley Whitaker, Brian Wilson

### Task force charge

To determine convergence needs related to the International Ethics Standards Board for Accountants (IESBA) revisions to their [Definitions of Listed Entity and Public Interest Entity](#).

The revised definitions and related standard are effective for audits of financial statements for periods beginning on or after December 15, 2024, and early adoption is permitted. IESBA also issued a related [basis for conclusion document](#) and brought [draft Qs & As](#) to the June 2022 IESBA meeting for input.

### Reason for agenda item

To obtain input on the task force's proposed approach for converging with IESBA Public Interest Entity (PIE) guidance.

### Task force activities

The task force met twice in June to develop the proposed approach in this memo. Revisions to the AICPA code's extant definition of PIE are necessary to converge with IESBA's new PIE definition (see agenda item 5B).

### Proposed approach

The IESBA code includes more restrictive independence requirements for entities considered to be PIEs. For example, the IESBA code prohibits the provision of non-assurance (or nonattest, in the AICPA code) services to a PIE audit or review client if that service might create a self-review threat in relation to the audit or review of the financial statements on which the firm will express an opinion.

IESBA's new PIE definition contains 3 mandatory categories of PIEs:

- a. A publicly traded entity
- b. An entity one of whose main functions is to take deposits from the public
- c. An entity one of whose main functions is to provide insurance to the public

The application guidance explains that bodies responsible for setting ethics standards are expected to define these categories more explicitly (that is, refine) to fit their jurisdictions. The application guidance also

- a. indicates that bodies responsible for setting ethics standards are expected to add categories but are *not* expected to remove any.
- b. encourages firms to consider whether to treat additional entities as PIEs.

The application guidance provides bodies responsible for setting ethics standards with a list of factors to consider when refining these categories (that is, determining what entities should be considered PIEs because there is significant public interest in the entity's financial condition). Additional factors are also provided to help firms with their evaluation of whether additional entities should be treated as PIEs.

The factors provided for *bodies responsible for setting ethics standards* to consider are as follows:

- a. Nature of the business or activities, such as the holding of assets in a fiduciary capacity for a large number of stakeholders taking on financial obligations to the public as part of the entity's primary business. Examples might include financial institutions, such as banks and insurance companies, and pension funds
- b. Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations
- c. Size of the entity
- d. Importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure
- e. Number and nature of stakeholders including investors, customers, creditors and of employees
- f. Potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity

The additional factors provided for *firms* to consider are as follows:

- a. Whether the entity is likely to become a PIE in the near future
- b. Whether in similar circumstances, a predecessor firm has applied independence requirements for PIEs to the entity
- c. Whether in similar circumstances, the firm has applied independence requirements for PIEs to other entities
- d. Whether the entity has been specified as not being a PIE by law, regulation, or professional standards
- e. Whether the entity or other stakeholders requested the firm to apply independence requirements for PIEs to the entity and, if so, whether there are any reasons for not meeting this request
- f. The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management

Since the three mandatory categories covered by the new PIE definition are already heavily regulated in the United States by the SEC<sup>1</sup>, PCAOB,<sup>1</sup> NAIC<sup>2</sup> and FDIC<sup>3</sup> and these regulators have independence requirements that are generally as restrictive as the IESBA PIE requirements, the task force is not recommending a set of independence interpretations specific to PIEs be added to the AICPA code. Rather, the AICPA code should direct members to those regulators' independence guidance.<sup>4</sup> This will avoid adding a separate set of independence

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<sup>1</sup> See IESBA's [benchmarking reports](#).

<sup>2</sup> National Association of Insurance Commissioners.

<sup>3</sup> Federal Deposit Insurance Corporation.

<sup>4</sup> The AICPA's current definition of PIE contains the following direction which we recommend be retained "Members should refer to the independence regulations of applicable authoritative regulatory bodies when a member performs attest services and is required to be independent of the attest client under such regulations." In addition, the preface to the AICPA code explains in paragraph .02 of ET 0.100.020 that "A member should also consult the following, if applicable:

- The ethical requirements of the member's state CPA society and authoritative regulatory bodies such as state board(s) of accountancy
- The Securities and Exchange Commission (SEC)
- The Public Company Accounting Oversight Board (PCAOB)
- The Government Accountability Office (GAO)
- The Department of Labor (DOL)

standards to the code and guidance that could be inconsistent with a particular regulator.

The task force plans to explore whether any entities subject to the GAO's independence standards should be considered within the scope and will report back on this at a later meeting.

Question for the committee

Does the committee agree with the task force's conclusion that there is no need to add a separate set of independence interpretations specific to PIEs to the AICPA code?

### Preliminary discussions of mandatory categories

IESBA's application guidance indicates that bodies responsible for setting ethics standards are *not* expected to remove any of the mandatory categories, only refine them.

The task force will review each category to determine how to refine them. If the task force identifies entities that should be considered PIEs but are not subject to one of the above noted regulators, input from the committee will be sought.

### Publicly traded entity

The first mandatory category of PIE is a publicly traded entity. During its June calls, the task force discussed refining this category to include only entities that are "subject to Regulation SX, SEC Rule 2-01 (i.e., SEC independence rules)." Refining the category as such would place significant importance on factor 2 (that is, whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations).

Proposing this as a refinement would cover entities traded on over the counter (OTC) trading platforms that are subject to the SEC rules which is consistent with IESBA's goal that the new definition is not intended to include only entities having shares, stock, or debt traded on formal exchanges but encompasses those on second-tier markets or OTC trading platforms<sup>5</sup>. This refinement would exclude entities traded on the OTC platforms that have only informational filing requirements since these entities are not considered listed entities.

The task force plans to discuss this category further to determine what other entities might be

- 
- Federal, state and local taxing authorities
  - Any other body that regulates a member who performs professional services for an entity when the member or entity is subject to the rules and regulations of such regulatory body.

<sup>5</sup> Paragraph 66 of the [basis for conclusion document](#) points out that the new definition is not intended to include only entities having shares, stock, or debt traded on formal exchanges but encompasses those on second-tier markets or OTC trading platforms.

included and whether there are any entities that would not be scoped in that should be.

To help users understand what would be included in this category, IESBA adopted the following definition of *publicly traded entity*:

An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

It might be helpful to add a definition of “publicly traded entity” to the AICPA code. When discussing the IESBA’s definition, the task force noted that it could include financial instruments that are not subject to the SEC’s jurisdiction (for example, governmental bonds). As such, IESBA’s definition may need some refinement, such as clarifying which securities laws and regulations are relevant.

#### Deposits from the public

The second mandatory category of PIE is “an entity one of whose main functions is to take deposits from the public.”

During its June calls, the task force discussed refining this category to include only entities “that meet the annual audit requirement imposed by Sections 363.1(a) and 363.2(a) of Part 363 of the FDIC’s regulations (12 CFR 363)”. This would scope in those financial institutions with assets of \$500 million or more that are already subject to SEC independence rules. Refining the category as such would place significant importance on factors 2 (whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations) and 3 (size of the entity), as the audit requirement becomes applicable when the bank has more than \$500 million in assets.

The task force plans to discuss this category further to determine what other entities might be included and whether there are any entities that would not be scoped in that should be.

#### Insurance

The third mandatory category of PIE is an entity one of whose main functions is to provide insurance to the public.

During its June calls, the task force briefly touched on refining this category to include only insurers that meet the audit requirement level in the National Association of Insurance Commissioners (NAIC) Model Audit Rule (MAR) and not include very small insurance entities (that aren’t currently under the NAIC audit requirement). Insurers in states that have adopted the MAR are subject to independence rules comparable to those of the SEC.

The task force plans to discuss this category further to determine what other entities might be

included and whether there are any entities that would not be scoped in that should be.

### Preliminary discussion on possible additional categories

IESBA's application guidance indicates that bodies responsible for setting ethics standards are expected to add categories. The application guidance identifies the following possible additional categories:

- Pension funds
- Collective investment vehicles
- Private entities with large numbers of stakeholders (other than investors)
- Not-for-profit organizations or governmental entities
- Public utilities

The task force had a high-level discussion on additional categories. Following are the entities the task force has identified thus far as needing consideration:

- Employee benefit plans that file Form 11K with the SEC
- Non-issuer broker-dealers registered with the SEC
- Funds that are advised by an investment advisor registered with the SEC where the advisor chooses to rely on the audit of the fund to meet the exemption in the "Custody Rule" (Investment Advisers Act of 1940)
- Investment companies including mutual funds that are registered with the SEC

These entities are subject to SEC independence rules.

### Firm provision

IESBA's application guidance also encourages firms to consider whether to treat additional entities as PIEs.

The AICPA's extant PIE definition contains a similar encouragement:

Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include

- the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;

- size; and
- number of employees.

The task force has not yet discussed this issue.

### Transparency requirement

IESBA's standard also includes the following transparency requirement.

#### Public Disclosure – Application of Independence Requirements for Public Interest Entities

- R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.
- R400.21 As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Because the requirement doesn't stipulate where the disclosure is made, the International Auditing and Assurance Standards Board (IAASB) has a project underway to determine where the disclosure should be made. As part of this project, IAASB issued as a first step, an [exposure draft](#). Comments are due October 4, 2022.

The task force discussed the transparency requirement and has not formulated a definitive approach regarding whether the requirement will need to be included in our proposal. Though the goal of transparency might be achieved by a regulator that is specified in the refined definition, because firms must consider including additional entities as PIEs, the task force needs to discuss this requirement further.

### Materials presented

Agenda item 5B: Extant AICPA PIE definition

## Extant AICPA PIE definition

Public interest entities. All of the following:

- a. All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.
- b. Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include

- the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;
- size; and
- number of employees.

Members should refer to the independence regulations of applicable authoritative regulatory bodies when a member performs attest services and is required to be independent of the attest client under such regulations.

## IESBA update

### Reason for agenda item

To supplement the quarterly verbal update on IESBA's activities and to provide project summaries for some of IESBA's projects and task forces.

Division staff welcomes input on any of the projects.

### Materials presented

- Agenda item 6B: Tax planning and related services
- Agenda item 6C: PIE rollout
- Agenda item 6D: Technology
- Agenda item 6E: Engagement team
- Agenda item 6F: Strategy and work plan
- Agenda item 6G: Sustainability

## Tax planning and related services

### Convergence considerations

It is too early to determine convergence considerations; however, division staff is keeping the tax division abreast of the project.

### Project description

The objective of the project is to develop a principles-based framework, leveraging the fundamental principles and the conceptual framework, to guide professional accountants' ethical conduct when providing tax planning and related services to employing organizations and clients, thereby maintaining the International Ethics Standards Board for Accountants (IESBA) code's robustness and relevance as a cornerstone of public trust in the global accountancy profession.

At a high level, the approved [project proposal](#) explains that the framework would do the following:

- Provide guidance to assist the professional accountant (PA) in identifying what might be deemed acceptable or unacceptable tax planning behavior in the context of the fundamental principles. The project will explore the following approach:
  - Understand the applicable tax laws and regulations, including as far as possible the legislative intent, and comply with them.
  - Obtain an understanding of the rationale for the particular tax scheme, structure, or transaction, taking into account a reasonable and informed third party's perceptions. In this regard, the project will develop guidance on indicators of what might be deemed acceptable versus unacceptable tax planning in the light of understanding that rationale, drawing on the work done by other organizations.
  - If there is no intent to promote indication or perception of unacceptable tax planning, provide guidance on applying the conceptual framework to the tax planning facts and circumstances, i.e., what types of threats might be created and what actions, including safeguards, might address the threats. This might include guidance to navigate situations where the legislative intent behind tax laws and regulations is uncertain.
- Address circumstances where there might be undue pressure, whether from management or from a client, to skirt the boundaries of what might be deemed acceptable tax planning. Linking to the provisions of the code addressing pressure to breach the fundamental principles might be appropriate in this regard.

- Recognize that an inducement might be offered to achieve certain tax outcomes in strict noncompliance with tax legislation. Linking to the provisions of the code addressing inducements might be appropriate in this regard.
- Provide guidance with respect to when communication with management or those charged with governance would be appropriate, including as part of an escalation process, and the matters or concerns that might be communicated. In this regard, professional accountants in business (PAIBs) might be guided to consider internal protocols, policies, or procedures for referring matters.
- Provide guidance on when and with whom to consult (internally or externally), which might be a part of specific actions to address identified threats.
- Address considerations relating to transparency balanced against the PA’s duty of confidentiality under the code, including the circumstances in which transparency would be appropriate or justified (e.g., as a safeguard to address threats, to disclose risks from uncertainties, or to disclose the rationale for a particular tax scheme, structure or transaction intent), when informed consent for disclosure should be obtained in the case of clients, to whom disclosure might be made and when, and the matters that might be disclosed.
- Address any documentation expectations for the PA.

### AICPA staff and PEEC input on the project

Staff input on the project has been limited to comments when the project proposal was developed. Specifically, staff expressed concern that the task force will get involved with matters outside of its purview such as tax morality and cautioned that the guidance developed not supersede ethical tax standards in a particular jurisdiction as committed to in the project proposal.<sup>1</sup>

PEEC itself has not yet provided input.

AICPA staff welcomes PEEC’s comments on the project including any concerns the committee believes should be monitored or conveyed to the project task force or IESBA.

### Status

During the March 2022 IESBA meeting, the task force shared preliminary thinking on indicators that a tax position might be in the “gray zone” and as such, warrant the need to apply the

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<sup>1</sup> The project proposal asserted that the guidance developed will “respect and not undermine national sovereignty to enact and promulgate” not only “tax laws and regulations as each jurisdiction sees fit” but ethical tax standards.

response framework.

### Gray zone indicators

The preliminary terms used by the task force to indicate the gray zone are “uncertain” and “improper” but they are still considering other terms such as “aggressive,” “unacceptable,” and “egregious.”

- Indicators that a tax position is “uncertain” might include these:
  - Tax legislation
    - Gaps in the current legislation
    - New and recent changes which can be subject to different interpretation
    - Multi-jurisdictional scope (complexity from technical or legal point of view)
    - Challenges to previous court rulings
  - No legal precedent
  - Recent court or tax rulings that cast doubt on similar arrangements
  - Conflicting laws within and across jurisdictions
  - New business models
    - Pace and impact of technology
    - Changing business landscape (e-commerce, cloud-based transactions, etc.)
  - Public perceptions influencing what is considered “improper”
- Indicators that a tax position is “improper” might include these:
  - Lack of clarity about who the client is or troubling information about client or management integrity
  - Transactions are artificial
  - Without genuine commercial purpose (substance over form)
  - Reason to believe, based on facts and circumstances, that it is clearly not in the

spirit of the law

- Lack of transparency to relevant tax authorities
- Lack of adequate factual basis (incomplete, unsupported, factually incorrect)
- Common indicators of improper tax planning in the relevant jurisdiction, for example:
  - Clearly exploiting gaps in tax laws and regulations
  - Double non-taxation, unreasonably high pricing of intangibles (royalties), etc.

### Response framework

The focus of the response framework is to provide practical guidance to PAs in navigating this gray zone so that they remain in full compliance with the fundamental principles of the code.

These are the steps in the response framework:

1. Identify, evaluate, and consider facts and issues
2. Identify risks and potential mitigating strategies
3. Discuss with management or those charged with governance, including consideration of transparency to relevant authorities
4. Evaluate management's response:
  - Is it adequate?
  - Is there a need to escalate?
  - Is internal or external consultation needed?
  - Is there further action needed?

### Roundtable discussions

During June 2022, the task force provided a [summary](#) of the significant comments received from the April 2022 virtual roundtables and the task force's preliminary views and reactions.

The task force plans to bring a draft standard to the September 2022 meeting.

## PIE rollout

### Project description

In April 2022, IESBA released the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest in the Code](#) (PIE final pronouncement), following approval by the Public Interest Oversight Board (PIOB), along with the staff-prepared .

This project involves rollout activities to raise awareness and promote adoption and implementation of the IESBA’s revisions to the definitions of “listed entity” and “public interest entity” (PIE) in the code.

### PEEC input on the project

PEEC has not yet provided input.

### Status

Key activities reported at the May 2022 IESBA meeting include the following.

Rollout activity	Anticipated timeline
Global webinar	Completed May 2022
Infographic	June 2022
Short videos	June through August 2022
Qs & As	July and August 2022
Updated jurisdictional PIE definitions database	September 2022
Regional and other local outreach, including potential NSS panel/roundtable discussion	July through December 2022

The working group also sought input on draft [Qs & As](#). Staff shared these with PEEC’s PIE task force during its kickoff meeting in June 2022.

## Technology

### Convergence considerations

Professional Ethics Division staff's preliminary assessment is that convergence steps may be necessary if IESBA adopts the proposal.

### Project description

To propose technology-related revisions to the IESBA code and to develop nonauthoritative material.

The project has two workstreams. The standards-setting workstream is being performed by the Technology Task Force (TTF) and is focused on revisions to the IESBA code.

The fact finding<sup>1</sup> and development of nonauthoritative material<sup>2</sup> is being conducted by the Technology Working Group (TWG).

### PEEC input on the project

PEEC submitted a [comment letter](#) on the [exposure draft](#).

### Status on the TTF's activities

Following is a summary of the components of the TTF's [exposure draft](#). Staff has noted where PEEC's comment letter expressed concern.

#### Professional competence and due care

The proposal includes revisions to the *Professional Competence and Due Care* subsection.

One addition emphasizes that serving clients and employing organizations with professional competence and due care involves the application of interpersonal, communication, and organizational skills. The TTF acknowledges that these skills are not necessarily limited to technology; however, they are increasingly regarded as critical skills for the future-ready accountant.

In the comment letter, PEEC expressed disagreement that interpersonal, communication, and organizational skills should be required for professional competence. Professional accountants have varying levels of soft skills and abilities and, as drafted, the proposal could be taken to

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<sup>1</sup> The TWG will conduct fact-finding and information gathering on disruptive technologies and related issues, including blockchain (e.g., cryptocurrencies and initial coin and security token offerings), cybersecurity, cloud-based services, internet of things (IoT), and data governance.

<sup>2</sup> The TWG plans to develop nonauthoritative materials related to ethical leadership in an era of complexity and digital change; confidentiality and privacy; auditor independence; and accountability and transparency.

imply that neurodiverse individuals are not competent.

PEEC also noted that application paragraphs should not contain requirements and offered a suggested revision to the proposal. The other addition to this subsection is a requirement that when professional accountants believe it is appropriate to make users aware of the limitations inherent in their services or activities, they provide sufficient information to enable the recipient to understand the implications of such limitations. Though the TTF acknowledges this communication is not limited to technology, they believe this addition is in line with increasing public demand for transparency.

### Confidentiality

The proposal includes an addition to the *Confidentiality* subsection to emphasize the professional accountant's role in more actively protecting confidential information given changes in public expectations.

Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the professional accountant taking appropriate action to secure such information in the course of its collection, use, transfer, storage, dissemination, and lawful destruction.

The proposal also includes a definition of confidential information.

Confidential information: Any information, data, or other material in whatever form or medium (including written, electronic, visual, or oral) that is not in the public domain.

The proposal includes refinements to paragraph 114.A3 to enhance the flow of the *Confidentiality* subsection and to modernize the characterization of means of communications. The proposed refinements to this paragraph are:

In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
  - Unsubstantiated facts
  - Incomplete information
  - Unsubstantiated conclusions

- The proposed means ~~type of communication~~, **the information** and ~~to whom it is addressed~~.
- Whether the parties to whom the **information** communication is **to be** addressed **or access is to be granted** are appropriate recipients.

#### PEEC's Protecting Client Confidentiality and Data Security Task Force discussions

The task force met to discuss the confidentiality additions. Their feedback on the confidentiality topics follows and was included in PEEC's comment letter:

- The definition of confidential information seems broad enough to accommodate for changes in technology without having to revise.
- With respect to the addition to the *Confidentiality* subsection to emphasize the professional accountant's role in more actively protecting confidential information given changes in public expectations
  - Encourage IESBA to retain the phrase "appropriate action." The task force believes this will allow jurisdictions to adopt the necessary clarity needed to align with their laws and regulations.<sup>3</sup>
  - Request that IESBA provide clarity into why they used both professional and business relationships. The task force believes that when a professional accountant has a business relationship with an entity or individual, a professional relationship also exists. Perhaps clarifying what relationships are covered by each would help provide guidance about what the appropriate guardrails are.

#### Complex circumstances and applying the conceptual framework

The proposal recognizes that complex circumstances might increase the challenges of applying the conceptual framework but is not a new threat per se. It describes the facts and circumstances that increase the challenges in applying the conceptual framework in complex circumstances and provides examples of actions that might help professional accountants manage and mitigate the challenges arising from such circumstances.

The proposal explains that complex circumstances arise where the relevant facts and circumstances involve (a) elements that are uncertain and (b) multiple variables and assumptions, which are interconnected or interdependent. The proposal also acknowledges that these facts and circumstances might also be rapidly changing.

Following are examples of possible actions included in the proposal:

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<sup>3</sup> The task force noted that if this phrase is adopted by IESBA, PEEC might consider using the reasonable third-party test when converging with the standard.

- Consulting with others, including experts, to ensure appropriate challenge and additional input as part of the evaluation process
- Using technology to analyze relevant data to better inform the accountant's judgement
- Making the firm or employing organization and, if appropriate, relevant stakeholders aware of inherent uncertainties or difficulties arising from the facts and circumstances
- Monitoring any developments or changes in facts and circumstances and assessing whether they might impact any judgments the accountant has made

PEEC expressed concern with the clarity of the guidance and therefore, the potential for inconsistent application. PEEC recommended addressing this topic in nonauthoritative materials so that examples or scenarios could be used to demonstrate how complexity can play a role when applying the conceptual framework.

#### Organizational culture

The proposal includes application guidance to the conceptual framework that explains professional accountants are expected to demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant or the firm or employing organization has a professional or business relationship.

Factors that affect the application of the conceptual framework when technology is used  
 The proposal explains that when a professional accountant (in business or in public practice) relies on output from technology, the following factors may help identify threats to the fundamental principles:

- Whether the information about how the technology functions is available to the accountant
- Whether the technology is appropriate for the purpose in which it is to be used
- Whether the accountant has the professional competence to understand, use and explain the output from the technology
- Whether the technology incorporates expertise or judgments of the accountant or the employing organization/firm
- Whether the technology was designed or developed by the accountant or employing organization/firm and therefore might create a self-interest or self-review threat

PEEC recommended that IESBA specify which threats relate to each consideration as done in the final bullet above.

#### Using or relying on the work of others or on the output of technology

The proposal adds explicit references to technology relating to using or relying on the work of others and provides factors to consider when determining whether reliance on technology is

reasonable. The proposal also highlights that the professional accountant's position may be a factor to consider because the position could affect the opportunity and ability to obtain the needed information.

The factors included in the proposal are as follows:

- The nature of the activity to be performed by the technology
- The expected use of, or extent of reliance on the output from the technology
- The professional accountant's ability to understand the output from the technology for the context in which it is to be used
- Whether the technology is established and effective for the purpose intended
- Whether the technology has been appropriately tested and evaluated for the purpose intended
- The reputation of the developer of the technology if acquired from or developed by an external vendor
- The employing organization's or firm's oversight of the design, development, implementation, operation, maintenance, monitoring or updating of the technology
- The appropriateness of the inputs to the technology, including data and any related decisions

PEEC recommended that this content not be combined with the discussion about relying on the work of others, rather appear as its own discussion. In addition, PEEC recommended IESBA explain why the scope of the guidance in part 2 and part 3 differs (reliance on versus use of the output of technology). PEEC also requested that IESBA provide additional guidance on how professional accountants should apply the factors, including practical examples.

#### Prohibition on assuming management responsibilities

The proposal includes a reminder that when technology is used in performing a professional activity for an attest client, the prohibition on assuming a management responsibility applies regardless of the nature or extent of such use.

#### Business relationships

The proposal expands one of the examples and adds an additional example of what could constitute a close business relationship to the *General* subsection of the *Business Relationships* section of the IISs.

The example that explains a close business relationship would include situations where a firm or client distributes or markets the other's products was expanded to include situations where the products or services or sold or resold. The new example of a close business relationship involves arrangements under which the firm or a network firm develops jointly with the client,

products or solutions which one or both parties sell or license to third parties.

In response to the 24 percent of survey respondents who indicated that they did not think that nonassurance services (NAS) provisions are relevant when a firm licenses technology that performs NAS to the audit client, the proposal adds a reminder to the Business Relationship section (section 520) that the NAS provisions in fact do apply. The reminder also clarifies that this not only applies when a firm licenses technology but when a firm provides, sells, or resells such technology. This reminder was also added to the introduction discussion of the NAS provision (section 600). PEEC was not supportive of adding either of these reminders.

#### Threats when providing nonassurance services

The proposal includes an additional technology-related factor that is relevant in identifying the different threats that might be created by providing NAS to an audit client and evaluating the level of such threats.

The client's dependency on the service, including the frequency with which the service will be provided.

#### Accounting and bookkeeping services

The proposal adds application guidance to the *Accounting and Bookkeeping Services* subsection of the IISs to highlight that automated nonattest services are not necessarily routine and mechanical.

Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how the technology functions and whether the technology is based on expertise or judgment attributable to the firm or the network firm.

PEEC requested clarification about the relevance of how the technology functions when determining whether an automated service is routine and mechanical. If IESBA chooses not to add the clarification, PEEC recommended the phrase "factors to be considered include how the technology functions and" be replaced by "a firm may consider."

#### Information technology system services

The proposal adds the following application guidance to the *Information Technology System Services* subsection of the IISs:

- Provides an expanded description of information technology (IT) systems services to highlight that the services related to IT systems extend beyond the design, or implementation of hardware or software systems. The expanded description includes
  - Designing or developing hardware or software IT systems
  - Implementing IT systems, including installation, configuration, interfacing, or

customization

- Operating, maintaining, monitoring, or updating IT systems
- Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client
- Clarifies what the client is required to do to ensure the firm does not assume a management responsibility and adds two examples of services that would involve assuming a management responsibility. One example added is when a firm or network firm operates the audit client's network security, business continuity or disaster recovery function. The other example added is when the firm or network firm provides services in relation to the hosting (directly or indirectly) of an audit client's data. With respect to the hosting services example, it is clarified that collection, receipt and retention of data provided by the audit client to enable the provision of a permissible service would not result in assuming a management responsibility.
- Incorporates examples of IT systems services that might create a self-review threat when they form part of or affect an audit client's accounting records or system of internal control over financial reporting:
  - Designing, developing, implementing, operating, maintaining, monitoring, or updating IT systems
  - Supporting an audit client's IT systems, including network and software applications
  - Implementing accounting or financial information reporting software whether or not it was developed by the firm or a network firm

PEEC expressed several concerns with these elements of the exposure draft, including the following:

- The proposal should clarify that an IT system does not include a tool that performs only discrete calculations when the audit client evaluates and accepts responsibility for the input and assumptions and the audit client has sufficient information to understand the calculation and the results.
- With respect to hosting services, the parenthetical text "(directly or indirectly)" should be clarified using the discussion from the explanatory material. If such clarification is not added, then the parenthetical text should not be included in the code and should be addressed as a Q&A.
- The examples of services that do not create self-review threats should remain in the code and be expanded to include examples of commercial-off-the-shelf implementation services.

## Engagement team

### Convergence considerations

Professional Ethics Division staff is currently performing the preliminary assessment of convergence needs. Staff notes that the AICPA Code of Professional Conduct (code) does not provide guidance related to component auditors who are outside of the network firm. Therefore, PEEC may need a convergence project to provide specific guidance for these auditors.

However, PEEC may not need a convergence project for engagement quality reviewers (EQRs) as the definition of *attest engagement team* in the AICPA code seems to be drafted broadly enough to include EQRs.

The AICPA definition reads “Those individuals participating in the *attest engagement*, including those who perform concurring and ***engagement quality reviews***.” (Emphasis added)

### Project description

To ensure that the IISs provide clear and consistent guidance on independence.

For quality management purposes, the International Auditing and Assurance Standards Board (IAASB) changed the definition of *engagement team* in International Standard on Auditing (ISA) 220 to include component auditors that are not part of the network firm and service providers. This revision raised several questions about these individuals’ compliance with the International Independence Standards (IISs) in the context of a group audit.

The purpose of this project is to ensure that the IISs provide clear and consistent guidance on independence for the following:

- Engagement quality reviewers who are not in the firm or network
- Component auditors who are performing audit procedures and who are outside of the audit firm’s network (i.e., individual independence requirements)
- The firms that these component auditors are in (i.e., firm independence requirements)

The proposed ISA 600 (Revised), like the extant ISA 600, establishes a requirement that the group audit engagement partner take responsibility for obtaining a confirmation from component auditors that ethical requirements have been fulfilled for the group audit engagement, including those related to independence.<sup>1</sup>

If the component auditor does not meet the independence requirements relevant to the group audit, the proposed ISA 600 (Revised) requires the group engagement team to obtain sufficient

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<sup>1</sup> Exposure draft of Proposed ISA 600 (Revised)(ED-ISA 600), Special Considerations-Audits of Group Financial statements (including the Work of Component Auditors), paragraph 20(c).

appropriate audit evidence relating to the work performed at the component without involving that component auditor.<sup>2</sup>

Under the extant IESBA code, if a component auditor is from the same network as the group auditor, the component auditor will apply the same independence requirements applicable to the group engagement team when auditing a component. For example, if the parent entity is a public interest entity (PIE),<sup>3</sup> all network firms are required to comply with the provisions on nonassurance services (NAS) that apply to the PIE and its related entities (applying the related entity principle in paragraph R400.20).<sup>4</sup>

In contrast, the IESBA code is effectively silent on the principles that should apply to a component auditor outside the group auditor's network. Accordingly, subject to a different agreement between the group auditor and the component auditor, the component auditor will apply the independence requirements in the IESBA code relevant to its audit client (i.e., the component).

### PEEC input on the project

PEEC submitted a [comment letter](#) on the [exposure draft](#).

Following is a summary of the components of the [exposure draft](#). Staff has noted where PEEC's comment letter expressed concern.

### Engagement quality reviewers

Because the extant definitions of the terms *audit team*, *review team*, and *assurance team scope* in only engagement quality reviewers (EQRs) within the firm or the network, the proposal revises these definitions to scope in EQRs from outside of the firm or network.

To do this, the proposal adds to all three definitions that individuals who can directly influence the outcome of the engagement include those who are engaged by the firm. The proposal also revises item (b) (iii) in each definition as follows (excerpted from the "Glossary, Including Lists of

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<sup>2</sup> ED-ISA 600, paragraph 22.

<sup>3</sup> The AICPA code defines "public interest entity" as (a) a listed entity; or (b) an entity: (i) defined by regulation or legislation as a public interest entity; or (ii) for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

<sup>4</sup> Paragraph R400.20 states the following: 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. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Abbreviations” section of the IESBA code):

- Audit team (b)(iii): Those who provide **perform an engagement** quality **review, or review consistent with the objective of** control for the audit engagement, including those who perform the **an** engagement quality control review, for the engagement; and
- Assurance team (b)(iii): Those who provide **perform an engagement** quality **review, or review consistent with the objective of an engagement quality review,** control for the assurance engagement, including those who perform the engagement quality control review for the engagement; and
- Review team (b)(iii): Those who provide **perform an engagement** quality **reviews, or review consistent with the objective of an engagement quality review,** control for the engagement, including those who perform the engagement quality control review for the engagement; and

#### Definition of engagement team

The proposal

- revises the extant definition of *engagement team* to align with the definition of that term in International Standard on Quality Management (ISQM) No. 1.
- includes additional guidance to clarify the nature of the various teams in reference to the different parts of the code.

The proposal revises the definition of *engagement team* as follows

Engagement team: All partners and staff performing the engagement, and any **other** individuals engaged by the firm or network firm who perform assurance procedures on the engagement. This excludes **excluding** external experts engaged by the firm or by a network firm **and internal auditors**. The term “engagement team” also excludes individuals within the client’s internal audit function who provide direct assistance on **the** an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013), *Using the Work of Internal Auditors*. This excludes external experts engaged by the firm or by a network firm.

***In Part 4A, the term “engagement team” refers to individuals performing audit or review procedures on the audit or review engagement, respectively. This term is further described in paragraph 400.A.***

***ISA 220 (Revised) provides further guidance on the definition of engagement team in the context of an audit of financial statements.***

***ISA 620 deals with the auditor’s responsibilities relating to the work of an***

***individual or organization in a field of expertise other than accounting or auditing, when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence.***

***ISA 610 (Revised 2013) deals with the auditor’s responsibilities if using the work of internal auditors, including using internal auditors to provide direct assistance on the audit engagement.***

***In Part 4B, the term “engagement team” refers to individuals performing assurance procedures on the assurance engagement.***

PEEC recommended the definition of an “engagement team” also exclude other individuals that the group auditor does not direct, supervise, or assume responsibility for (for example, component auditors referred to in a group auditor’s report). PEEC suggested that if IESBA does not include this in the definition, clarification could be done through nonauthoritative means.

#### Individual independence

IESBA believes that the same independence considerations that apply to individuals from component auditor firms within the network should be applied to component auditors outside of the group auditor’s network. This is because the work of the individuals from the non-network firms contributes to the audit opinion on the group financial statements just as much as the work performed by individuals from component auditor firms within the network.

IESBA believes that taking a consistent approach to personal independence, whether an individual is from a network firm or non-network firm, will eliminate any perception that the independence of component auditors on the engagement team outside the network is less important than that of component auditors on the engagement team within the network.

In addition, because the concept of a component<sup>5</sup> under ED-ISA 600 is no longer limited to a corporate entity, the independence standards should also require independence of the individuals involved in the group audit engagement of any components that are not related entities.

The requirement that members of the group audit team be required to be independent of the

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<sup>5</sup> ED-ISA 600 (Revised) defines a “component” as follows: “A location, function or activity (or combination of locations, functions or activities) determined by the group engagement team for purposes of planning and performing audit procedures in a group audit.” Paragraph A4 of ED-600 notes that “the group engagement team uses professional judgment in determining the components for which audit procedures will be performed (by the group engagement team or component auditors on its behalf). The way components are viewed for purposes of planning and performing a group audit may be influenced by the group structure but may or may not be aligned with the way in which the group is organized, which could be, for example, by legal entities, geographic locations, or lines of business.”

group audit client was clarified through the following addition:

**R405.4** All members of the audit team for the group audit shall be independent of the group audit client in accordance with the requirements of this Part that are applicable to the audit team.

PEEC indicated that it will be challenging for individuals (and firms) from a component audit firm outside of the group audit firm's network (non-network) to maintain independence with respect to related entities of the group audit client. PEEC recommended a threats and safeguard approach be applied to non-network firms and individuals from those firms versus what is currently being proposed. PEEC recommended that if IESBA adopts the strict requirement i that either IESBA or IAASB provide guidance that would address matters such as what the group auditor should communicate to these non-network component audit firms.

It would be helpful to clarify that when an entity undergoes a standalone audit, the auditor will not need to comply with Section 405 when the group engagement partner concludes that the entity is not a component audit client for purposes of the group audit.

PEEC also recommended clarification about which PIE requirements the component audit team should apply with respect to the group audit when the component entity and group audit client are both PIEs but reside in different jurisdictions. This is important because the PIE definition may be refined differently by the jurisdictions.

#### Firm independence of component auditor outside of network

When a component auditor is within the group auditor's network the IESBA code already requires network firms to be independent. Accordingly, the proposal focuses on firms that are outside of the group auditor's network.

The general rule proposed is that a firm that is outside of the group auditor's network (and any of its network firms), should be independent of the component it is auditing using the PIE or non-PIE standard that is applicable to the group audit client. To help firms apply this general rule, the proposal includes in paragraphs 405.12 A1 and 405.12 A2 three examples of how firms should apply the nonassurance services provisions.

In addition, the proposal requires the component firm *not* have a financial interest in the entity on whose group financial statements the group auditor firm expresses an opinion (R405.6 (b)). While initially this prohibition was drafted to only apply to PIEs, after feedback, the prohibition was expanded to be applicable for *all* group audit clients. IESBA does not believe that the level of the threats to independence warrant going beyond this entity (e.g., ultimate parent entity that is above the group audit client or sister entity to the component entity). This prohibition,

however, would not extend to the component firm's network firms<sup>6</sup>.

The proposal extends the requirements and application material related to loans and guarantees (Section 511) to component firms that are outside of the network (paragraph R405.6 (c)).

The proposal requires that when a component auditor firm outside the group auditor firm's network knows, or has reason to believe, that a relationship or circumstance:

- involving the group audit client is relevant to the evaluation of the component auditor firm's independence from the component audit client, the component auditor firm shall include that relationship or circumstance when identifying, evaluating, and addressing threats to independence (R405.7).
- of a firm within the component auditor firm's network with the component audit client or the group audit client creates a threat to the component auditor firm's independence, the component auditor firm shall evaluate and address any such threat (R405.8).

The proposal also clarifies when the component audit partner is required to apply the provisions applicable to key audit partners. This is required when the group engagement partner communicates to the component audit partner that they are considered a key audit partner because they make key decisions or judgements on significant matters with respect to the group audit client.

PEEC's comments above related to individuals are also applicable to firms.

#### Changes in component audit firms

The proposal reminds component auditors to consider relationships it had (or has) with the component auditor prior to agreeing to perform audit work. The reminder not only highlights nonattest services the component auditor firm may have provided (or is providing) but financial or business relationships (405.13 A1 and A2).

PEEC recommended that IESBA address situations that could change the independence requirements of the component auditor as it applies to mergers or acquisitions by the group audit client. An example is when a PIE group audit client acquires a non-PIE entity during or after the period covered by the group financial statements.

#### Breaches of an independence requirement by a component auditor outside of network

The general approach for a breach of independence by a component auditor that is outside of the network is the same as the process that should be followed by a component auditor that is

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<sup>6</sup> This less restrictive position is not applicable to the firm issuing the audit opinion on the group financial statements and its network firms. These entities would need to be independent of the group audit client, its related entities and any other components scoped in under proposed ISA 600 (Revised).

in the network except, the component auditor outside of the network would not need to communicate with those charged with governance (TCWG).

At a high level, the process for a component auditor outside of the network would be as follows:

- Evaluate the significance of the breach and its impact on the firm's objectivity and ability to express an opinion on the component audit client's financial information for group reporting purposes.
- Determine whether it is possible to take action that satisfactorily addresses the consequences of the breach and whether such action can be taken and is appropriate in the circumstances.
- Promptly report the breach to the group audit partner and include the assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.

Upon receiving notification of a breach by a component auditor outside of the firm, the group audit partner should do the following:

- Review the assessment of the significance of the breach and any actions proposed or taken to address the consequences of the breach.
- Evaluate whether the breach would prohibit them from relying on the component auditor.
- Determine if any further action is necessary.
- Discuss with TCWG the details of the breach, whether the action proposed or taken addresses the breach, and the firm's rationale for how the breach impacts its objectivity.

If TCWG do not concur that the actions proposed or taken by the component auditor firm satisfactorily address the consequences of the breach at the component auditor firm, the group auditor firm should not use the work for the group audit. In addition, the group audit firm should determine whether to perform further or alternative procedures or perform itself the necessary audit work procedures on the component audit client, to obtain such concurrence.

## Strategy and work plan

### Project description

To seek stakeholder input what key trends, developments, or issues IESBA should consider as it begins the process of developing its Strategy and Work Plan (SWP) 2024–2027. The [IESBA Strategy Survey 2022](#) is open to the public and responses are requested by July 8, 2022.

### AICPA staff input on the project

The AICPA Professional Ethics Division submitted a [response to question 2](#) of the survey.

### Status

Using the results of the survey, IESBA will develop and issue for public comment a consultation paper.

IESBA expects to finalize the SWP by the end of 2023 for release in early 2024.

Agenda item 6F

## Sustainability

### Project description

To establish a new Sustainability Working Group that will, among other matters

- undertake fact finding to better understand the sustainability, environmental, social and governance (ESG) landscape and to inform potential future standards-setting work.
- advise IESBA staff on the development of guidance to highlight existing provisions in the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA code) that are relevant to addressing ethical concerns relating to sustainability reporting and assurance, especially the issue of “greenwashing.”
- review the code to identify potential areas for enhancement to maintain its robustness and relevance to sustainability reporting and assurance.

### Status

Due to the urgency of the topic, it was agreed that the working group should not produce a report to the board on its fact finding, rather should develop a project plan or plans on how to revise the IESBA code to address the ethical issues related to sustainability.

During the September 2022 meeting the working group will present the areas of the IESBA code that it believes need to be revised. Subject to agreement, the working group will develop a project plan to bring to the December 2022 meeting for approval.

### Sustainability Webinar

On May 18, 2022, the IESBA chair moderated a conversation between the working group chair and financial conduct authority director of ESG, Sacha Sadan, about the role of the code in instilling public trust and confidence in sustainability reporting and assurance. The recorded [webinar](#) is accessible on IESBA’s website.

### Terms of Reference

The draft [Terms of Reference](#) for the working group was discussed during the June 2022 meeting.

### Questionnaire

The working group issued a sustainability stakeholder [questionnaire](#) . Staff is identifying internal parties to assist with the response.

### Staff publication

IESBA staff plans to develop a staff publication aimed at explaining how the code addresses concerns about misleading sustainability information (that is, greenwashing).