



# Professional Ethics Executive Committee

Open meeting agenda

May 17, 2022

Virtual



## Open meeting agenda — May 17, 2022

Professional Ethics Division

Professional Ethics Executive Committee

<p>Phone access: +1 301 715 8592 (US toll) or +1 312 626 6799 (US toll)</p> <p>Meeting ID: 979 1946 7866   Web access: <a href="https://aicpa.zoom.us/j/97919467866">https://aicpa.zoom.us/j/97919467866</a></p> <p>International numbers available: <a href="https://aicpa.zoom.us/u/aeuYWAkoKL">https://aicpa.zoom.us/u/aeuYWAkoKL</a></p> <p>Observers must register: <a href="http://www.aicpa.org/peecmeeting">www.aicpa.org/peecmeeting</a></p>		
10:00–10:05 EST	<p><b>Welcome</b></p> <p>Mr. Lynch will welcome the committee members and discuss administrative matters.</p>	
10:05–11:05	<p><b>Compliance audits</b></p> <p>The task force will seek approval to expose two new definitions (“compliance audit” and “compliance audit attest client”), a revision to the definition of “financial statement attest client” and revisions to the “Client Affiliates” interpretation and the “State and Local Government Client Affiliates” interpretation.</p>	Agenda items 1A–1B
11:05–11:20	<p><b>Unpaid fees</b></p> <p>The task force will seek input on the nonauthoritative guidance developed to assist members with implementing the revised interpretation.</p>	Agenda item 2
11:20–11:35	<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 3A–3B
11:35–11:40	<p><b>Protecting client confidentiality and data security</b></p> <p>The task force will seek approval for an</p>	Agenda item 4

	updated task force charge.	
11:40–12:00	<p><b>Officers, directors and beneficial owners</b></p> <p>Staff will seek approval to expose conforming revisions to the code to align with the new threshold adopted by the committee in connection with the SEC convergence revisions PEEC adopted in December 2021.</p>	Agenda items 5A–5B
12:00–1:00	<i>Break before afternoon session</i>	
1:00–1:05	<p><b>IESBA convergence: Engagement quality reviewer</b></p> <p>The task force will provide the committee with an update.</p>	
1:05–1:20	<p><b>Simultaneous employment or association with an attest client</b></p> <p>The task force will seek input on the task force's proposed project scope.</p>	
1:20–1:30	<p><b>IESBA convergence: Fees</b></p> <p>The task force will provide the committee with an update.</p>	
1:30–1:45	<p><b>Information systems services</b></p> <p>The task force will provide an overview of the virtual roundtable workshop discussions.</p>	
1:45–1:55	<p><b>IFAC convergence and monitoring — Public interest entities</b></p> <p>The working group will seek approval to appoint a convergence task force to refine the definition of public interest entity.</p>	Agenda item 6
1:55–2:40	<p><b>IESBA update</b></p> <p>Staff will provide an update on IESBA's activities. Comments and monitoring concerns are welcome.</p>	Agenda items 7A–7G

	In addition, staff will seek input on the two outstanding IESBA exposure drafts, <a href="#">Technology</a> and <a href="#">Engagement Team</a> .	
2:40–2:45	<b>Statements on Standards for Tax Services</b> The task force will provide the committee with an update.	
	<b>Future meeting dates</b> August 3–4, 2022 November 10–11, 2022	

## Compliance audits

### Task force members

Nancy Miller (chair), Ian Benjamin, Ralph DeAcetis, Anna Dourdourekas, Staci Henshaw, Lee Klumpp, Flo Ostrum, Lewis Sharpstone, Brittney Williams

### Observers

Sonia Araujo, Stephanie Sauer-Watts

### AICPA staff

Jennifer Kappler, Melissa Powell, Michael Schertzinger

### Task force charge

To consider how the independence requirements for compliance audits performed under the Statements on Auditing Standards should be applied and whether those independence requirements should differ when a compliance audit only is performed versus when a compliance audit is performed with the audit of the financial statements of the same attest client and within these circumstances, consider when

- the compliance audit includes reporting on a financial statement (for example, a schedule of expenditures of federal awards or comparable schedule).
- the compliance audit does not include reporting on a financial statement (for example, a compliance audit of a proprietary school required by the U.S. Department of Education Office of Inspector General's *Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Services Administering Title IV Programs*).

A key component in evaluating how to apply the independence requirements will be to determine what entity should be considered the attest client in the compliance audit and whether the affiliate interpretations in the AICPA Code of Professional Conduct (code) should apply.

The task force is charged with considering potential revisions to the code and considering what nonauthoritative guidance is needed.

### Reason for agenda item

The committee is asked to approve the exposure of two new definitions, a revised definition, and two revised interpretations. The committee is also asked to provide feedback on the task force's plans for nonauthoritative guidance.

### Task force activities

At the February committee meeting, the task force presented a proposed new interpretation and

related revisions to existing definitions and interpretations.<sup>1</sup> PEEC asked the task force to reconsider whether a new interpretation is necessary, suggesting definition revisions might suffice. The task force reconsidered the approach and is presenting two new definitions, a revised definition, and two revised interpretations for the committee's approval (agenda item 1B).

PEEC members commented on a preliminary version of the exposure draft and the task force incorporated changes appropriately, retaining some comments for consideration during the exposure period.

### Recommendations

Using similar verbiage from the revisions presented to the committee in February, two new definitions are being proposed in the exposure draft:

- New definition of "compliance audit"
- New definition of "compliance audit attest client"

The definition of "compliance audit attest client" includes an exception for entities not subject to compliance audit procedures and which report amounts that are trivial and clearly inconsequential.

These proposed definitions will identify the compliance audit attest clients in a compliance audit. Because these clients are a type of attest client, the "Independence Rule" (ET sec. 1.200.001) and its interpretations apply, with one proposed exception related to affiliates.

The proposed revision to the definition of "financial statement attest client" carves out a compliance audit attest client. Therefore, the "Client Affiliates" interpretation (ET sec. 1.224.010) and the "State and Local Government Client Affiliates" interpretation (ET sec. 1.224.020) will not apply with respect to a compliance audit attest client. Revisions to these interpretations are being proposed to reiterate that the requirements would not apply in a compliance audit.

The "Client Affiliates" interpretation (ET sec. 1.224.010) and the "State and Local Government Client Affiliates" interpretation (ET sec. 1.224.020) also do not apply to engagements subject to the Statements on Standards for Attestation Engagements (SSAEs). To encompass all attest engagements in which these interpretations do not apply, the proposed revisions also include a reminder that the interpretations do not apply to engagements subject to the "Independence Standards for Engagements Performed in Accordance with the Statements on Standards for Attestation Engagements" subtopic (ET sec. 1.297) of the "Independence Rule" (ET sec. 1.200.001).

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<sup>1</sup> The committee's February agenda materials can be found [here](#).

The proposed revisions and the explanations supporting these revisions are further discussed in the exposure draft in agenda item 1B.

#### Other considerations

##### Other situations

Upon encountering other relationships and circumstances that may create threats to independence, members should use the “Conceptual Framework for Independence” (ET sec. 1.210.010) to evaluate whether threats are at an acceptable level.

##### Engagements subject to the Statements on Standards for Attestation Engagements

After PEEC’s feedback at the February meeting, the task force determined that the proposed revisions to the “Engagements, Other Than AUPs, Performed in Accordance with SSAEs” interpretation (ET sec. 1.297.030) to align similar compliance related SSAE engagements with the proposed “not subject to audit and trivial and clearly inconsequential” exception for compliance audits are not necessary. These requirements are already aligned with the proposed revisions for compliance audits.

##### Effective date

The task force recommends that the proposed revisions be effective for compliance audits commencing after June 15, 2023, with early implementation allowed.

##### Questions for the committee

1. Does the committee believe that the definitions of “compliance audit” and “compliance audit attest client” are clear?
2. Does the committee believe that the “not subject to audit and trivial and clearly inconsequential” exception is appropriate?
3. Does the committee agree that the “affiliates” exception is appropriate?
4. Does the committee believe that the revision to the definition of “financial statement attest client” clearly excludes a compliance audit attest client? Does the committee agree that conforming revisions to the affiliates interpretations are useful?
5. Does the committee agree with the task force’s conclusions related to other situations that should be considered using the conceptual framework?
6. Does the committee agree with the task force’s conclusion that a revision to include a “not subject to audit and trivial and clearly inconsequential” exception in the independence requirements for similar engagements performed under the SSAEs is not necessary?

7. Does the committee agree with the proposed effective date?
8. Does the committee approve the proposed revisions, included in the exposure draft in agenda item 1B, for exposure?
9. Does the committee agree the exposure period should be 90 days?

### Action needed

The committee is asked to approve for exposure the proposed revisions in agenda item 1B.

### Communications plan

Staff will work with Ms. Mullins to develop an appropriate communications plan. In addition to Ms. Mullins' communication strategies, staff also plans to

- include notice in the upcoming *Journal of Accountancy* article on State and Local Government Client Affiliates.
- include an announcement in a GAQC alert.
- work with the Single Audit Content Squad to push communications to members.
- plug the exposure in upcoming conferences (e.g. ENGAGE and Not-for-Profit conferences in June, and the Governmental Accounting and Auditing Update Conference in August).

Staff and task force members have been in communication with certain interested groups (e.g. Governmental Audit Quality Center Executive Committee, U.S. Government Accountability Office, and National Association of State Auditors, Comptrollers and Treasurers) about this project and they are aware that revisions to the code may be exposed.

### Nonauthoritative guidance

The task force plans to develop and issue nonauthoritative guidance prior to the effective date of the proposed revisions, if adopted. Topics considered for such guidance include these:

- Explanation of what is a compliance audit
- Examples of how a compliance audit might have multiple compliance audit attest clients
- Explanation and detailed example of how to apply the “not subject to audit and trivial and clearly inconsequential” exception

- Emphasize that members should be alert to changes in the entities considered to be compliance audit attest clients and describe circumstances that could cause this change during the period of professional engagement.
- Examples of relationships and circumstances that may require the member to use the conceptual framework

Questions for the committee

10. Does the committee have any feedback on the topics planned to be addressed in non-authoritative guidance?
11. Does the committee have any suggestions for other topics to be addressed in non-authoritative guidance?

**Materials presented**

Agenda item 1B: Proposed explanation and revisions related to compliance audits

## Proposed explanation and revisions related to compliance audits

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## Invitation to comment

Month xx, 2022

If you're an AICPA member or someone interested in the ethics of auditing and accounting, we want to hear your thoughts on this ethics exposure draft.

This proposal is part of the AICPA's Professional Ethics Executive Committee (PEEC) project to consider independence when performing compliance audits.

This exposure draft is an explanation of the proposed revisions to the AICPA Code of Professional Conduct and the full text of the guidance being considered.

After the exposure period concludes and PEEC has evaluated the comments, PEEC may decide to publish the new definitions, revised definition, and two revised interpretations.

Your comments are an important part of the standards-setting process; please take this opportunity to comment. Responses must be received at the AICPA by Month xx, 2022. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at [www.aicpa.org/peecprojects](http://www.aicpa.org/peecprojects). PEEC will consider comments at its subsequent meetings.

Please email comments to [ethics-exposureDraft@aicpa.org](mailto:ethics-exposureDraft@aicpa.org).

You may also submit comments via our online form at [www.aicpa.org/ethicscomments](http://www.aicpa.org/ethicscomments).

Sincerely,

Brian S. Lynch, Chair  
Professional Ethics Executive Committee

Toni Lee-Andrews, Director, CPA, PFS, CGMA  
Professional Ethics Division

## Explanation of the new definitions, revised definition, and revised interpretations

The number of compliance audits is on the rise.<sup>1</sup> Applying extant independence guidance in the AICPA Code of Professional Conduct (code) to compliance audits can be overly cumbersome and is currently being applied inconsistently.<sup>2</sup> As a result, after outreach to members and careful consideration, the Professional Ethics Executive Committee (PEEC) is proposing changes to the code to provide relief to members who perform these audits.

PEEC is exposing for comment two new definitions and minor related revisions to one definition and two interpretations.

- New definition “compliance audit” (ET sec. 0.400.09)
- New definition “compliance audit attest client” (ET sec. 0.400.10)
- Revised definition of “financial statement attest client” (ET sec. 0.400.16)
- Revised “Client Affiliates” interpretation (ET sec. 1.224.010)
- Revised “State and Local Government Affiliates” interpretation (ET sec. 1.224.020)

The new definitions, the revised definition, and the two revised interpretations will be applicable to members in public practice.

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<sup>1</sup> The Government Audit Quality Center believes that as many as 10,000 or more new compliance audits could be required because of COVID-19 relief funding. In addition, funding from the Infrastructure Investment and Jobs Act is also expected to increase the number of compliance audits.

<sup>2</sup> In December 2020, the AICPA Professional Ethics Division polled members who perform compliance audits to gain an understanding of how they are applying the extant code’s independence requirements to compliance audits. Approximately 50 percent of members polled believe additional guidance is necessary. Further, the results showed that there are inconsistent practices in the following three areas: (1) Determining which entities the independence requirements should apply to in a compliance audit; (2) Performing a compliance audit and an audit of the financial statements for the same attest client. Approximately 50 percent of members believe that evaluating independence related to the financial statement audit is sufficient. The other half of members believe that a separate evaluation is necessary for the compliance audit; (3) Performing a compliance audit only (meaning that another firm performs the audit of the entities’ financial statements). Eighty percent of members that perform these engagements believe that the evaluation of independence in the compliance audit is the same as the evaluation of independence in the entity’s financial statement audit.

## Overview

1. For members performing compliance audits, PEEC intends the changes to provide relief from compliance with
  - a. the “Independence Rule” and its interpretations with respect to any entity that
    - i. is not subject to compliance audit procedures and
    - ii. which reports trivial and clearly inconsequential amounts.
  - b. the requirements in the “Affiliates, including State and Local Government Affiliates” subtopic (ET sec. 1.224).
2. The scope of the proposed new definitions, the revised definition, and the two revised interpretations is specific to compliance audits performed under the Statements on Auditing Standards, regardless of whether the auditor also performs the audit of the client’s financial statements prepared in accordance with the applicable financial reporting framework (also referred to as a “financial statement audit”).
3. Independence requirements are unchanged when an attest engagement is performed on a reporting entity’s financial statements prepared in accordance with the applicable financial reporting framework (for example, GAAP).

## What is a compliance audit?

4. A compliance audit is an attest engagement that is performed under the Statements on Auditing Standards when the member is requested to report on an entity’s compliance with specific requirements.
5. For example, the member may report on compliance requirements of a contractual agreement or regulatory requirements in accordance with AU-C section 806, or report on compliance under governmental audit requirements, such as Uniform Guidance, in accordance with AU-C section 935.
6. In addition to reporting under AU-C section 806 or 935, for example, the compliance audit engagement may also require reporting on the accuracy of a schedule, such as a schedule of expenditure of federal awards, or statement, under AU-C section 725 or 805.
7. Specific examples of compliance audits may include the following:
  - a. Audits subject to the U.S. Department of Housing and Urban Development *Consolidated Audit Guide*
  - b. Audits subject to the U.S. Department of Education Office of Inspector General’s *Guide*

*For Audits of Proprietary Schools and For Compliance Attest Engagements of Third-Party Services Administering Title IV Programs*

- c. Single Audits under Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
- d. Program-specific audits under Uniform Guidance

**What is a compliance audit attest client?**

- 8. The proposed term “compliance audit attest client” is defined as an entity with respect to which a compliance audit is performed unless the entity
  - a. is not subject to compliance audit procedures and
  - b. reports amounts that are trivial and clearly inconsequential.

**Objective of a compliance audit**

- 9. The reporting objective and use of a compliance audit differs from the objective and use of a financial statement audit.
- 10. A financial statement audit includes reporting on whether the financial statements are fairly stated in their entirety.
- 11. Third parties, such as investors or lenders or funding organizations, rely on financial statement audits to obtain assurance over the audit client’s financial statements (for example, financial position, changes in net position, and cash flows).
- 12. In contrast, a compliance audit focuses on compliance with identified requirements, such as those contained in Uniform Guidance. Although the compliance audit may include reporting on a schedule or statement, this reporting is not usually the primary objective of the compliance audit engagement.
- 13. The schedule or statement is often used to determine the scope of the compliance audit procedures. Those compliance audit procedures are performed over financial and non-financial measures, as specified in the identified requirements, that may be driving the amounts reported on the schedule or statement itself.
- 14. As a result, those who use compliance audits rely on the results of compliance with the identified requirements, rather than on financial position or operating results.
- 15. For example, funding organizations often rely on compliance audits to provide assurance on the entity’s compliance with applicable compliance requirements of grants, contracts, or

agreements.

16. Because the objective of a compliance audit is different from the objective of a financial statement audit, PEEC believes two exceptions should be allowed, as discussed in the following section.

## Exceptions

Not subject to audit and trivial and clearly inconsequential exception

17. An entity must meet two criteria to qualify for the exception in the definition of compliance audit attest client:
  - a. It must be an entity that is not subject to compliance audit procedures.
  - b. The amounts the entity is reporting must be trivial and clearly inconsequential.
18. A compliance audit may include multiple entities in the reporting entity's schedule or statement. For example, in a compliance audit performed in accordance with Uniform Guidance for a state and local government, there may be multiple entities (departments, agencies, component units) that include amounts in the reporting entity's schedule of expenditures of federal awards.
19. Using the applicable compliance audit requirements, auditors determine which entities are subject to compliance audit procedures. A reporting entity's schedule or statement is often used in making this determination.
20. One or more of the entities reporting amounts on the reporting entity's schedule or statement may be reporting trivial and clearly inconsequential amounts.
21. The auditor should use professional judgement to determine what amounts are considered trivial and clearly inconsequential.
22. Entities reporting trivial and clearly inconsequential amounts could be subject to compliance audit procedures. For example, this may occur when an entity reports federal program amounts that are included in a federal program cluster that is subject to compliance procedures in an audit performed in accordance with Uniform Guidance.
23. If an entity with respect to which a compliance audit is performed, reports trivial and clearly inconsequential amounts but is subject to compliance audit procedures, it is a compliance audit attest client and independence is required with respect to that entity.
24. When an entity that is not subject to compliance audit procedures reports trivial and clearly inconsequential amounts, threats created from relationships or circumstances with the entity

are unlikely to be significant given the objective of a compliance audit.

25. An exception was deemed appropriate to more closely align the cost of compliance with the potential threats.
26. Thus, the proposed definition provides an exception when both criteria are met.

Application example of the “not subject to audit and trivial and clearly inconsequential” exception

27. An auditor will consider the “not subject to audit and trivial and clearly inconsequential” exception in the definition of compliance audit attest client when identifying entities requiring independence in a compliance audit.
28. For example, a state government compliance audit subject to Uniform Guidance may include hundreds of entities (departments, agencies, component units) reporting federal program expenditures on a reporting entity’s schedule of expenditures of federal awards. Federal program expenditures on the schedule of expenditures of federal awards could total over \$1 billion.
29. Under Uniform Guidance, the auditor selects certain programs to be subject to compliance audit procedures.
30. If an entity reports two federal programs totaling \$1,000 in federal expenditures, for example, the auditor may consider that total amount to be trivial and clearly inconsequential. If considered trivial and clearly inconsequential and the entity is not subject to compliance audit procedures, the entity is not a compliance audit attest client.
31. All other entities would be considered compliance audit attest clients. Therefore, the auditor would be required to comply with the “Independence Rule” (ET sec. 1.200.001) and its interpretations (other than as described in paragraphs 32-40 below) with respect to such entities.

#### Affiliates exception

32. To qualify for the affiliates exception provided for in the proposed revision to the definition of “financial statement attest client”, the entity must meet the definition of “compliance audit attest client”.
33. Under the extant guidance, when a compliance audit engagement includes reporting on the accuracy of a schedule or a statement in connection with the compliance audit, the schedule or statement is a “financial statement” as defined in the code.
34. As a result, the client is a “financial statement attest client” as currently defined in the code. For clients that meet the definition of a “financial statement attest client,” the code requires that the auditor be independent of both the financial statement attest client and its affiliates.

Therefore, the code currently requires the auditor to comply with the “Independence Rule” and its interpretations with respect to the compliance audit attest client’s affiliates as well.

35. Affiliates are not often responsible for the compliance audit attest client’s compliance with the requirements subject to the compliance audit.
36. Given that the primary objective of a compliance audit is to report on the client’s compliance with specific requirements, significant threats to independence generally do not exist for relationships and circumstances with affiliates of a compliance audit attest client.
37. PEEC deemed an exception appropriate to more closely align the cost of compliance with the potential threats.
38. To implement the affiliates exception, PEEC is proposing revisions to exclude a compliance audit attest client from the definition of a “financial statement attest client”. If the proposed revisions are implemented, the requirements in the “Client Affiliates” interpretation (ET sec. 1.224.010) and the “State and Local Government Client Affiliates” interpretation (ET sec. 1.224.020) will not apply with respect to compliance audits and compliance audit attest clients.
39. Currently, attest clients in a compliance audit that includes reporting on the accuracy of a schedule or statement are considered financial statement attest clients. Therefore, PEEC is proposing revisions to the “Client Affiliates” interpretation (ET sec. 1.224.010) and the “State and Local Government Client Affiliates” interpretation (ET sec. 1.224.020) to highlight that the requirements do not apply in a compliance audit.
40. To encompass all attest engagements in which the requirements of these interpretations do not apply, the proposed revisions also include a reminder that the interpretations do not apply to engagements subject to the [“Independence Standards for Engagements Performed in Accordance with the Statements on Standards for Attestation Engagements”](#) subtopic (ET sec. 1.297) of the “Independence Rule” (ET sec. 1.200.001).

#### Other situations

41. Upon encountering other relationships or circumstances that may create threats to independence, the member should apply the “Conceptual Framework for Independence” (ET sec. 1.210.010) to evaluate whether threats are at an acceptable level.
42. For example, when an entity that does not include amounts in the schedule or statement (and, therefore does not meet the definition of a compliance audit attest client) supports a compliance audit attest client in a way that results in that entity being subject to compliance audit procedures, the auditor should use the Conceptual Framework for Independence to evaluate threats to independence related to any relationships or circumstances that exist

with such entity.

43. In a compliance audit subject to Uniform Guidance, there may be an entity that does not include amounts in the schedule of expenditures of federal awards but provides support activities for a compliance audit attest client. Those activities, such as providing the accounting and financial reporting support for the client, may be subject to compliance audit procedures.
44. If the auditor is considering providing financial information system design services, for example, to an entity that is providing accounting and financial reporting support to the compliance audit attest client, the auditor should use the Conceptual Framework for Independence to evaluate whether threats are at an acceptable level or whether threats can be reduced to an acceptable level by applying appropriate safeguards.

### Engagements performed under the Statements on Standards for Attestation Engagements

45. PEEC considered whether the proposed revisions for compliance audits are consistent with the requirements for similar engagements performed under the Statements on Standards for Attestation Engagements (SSAEs).
46. Specifically, PEEC considered whether the code should be revised to create an exception in such engagements for entities that are not subject to compliance attestation procedures and that report trivial and clearly inconsequential amounts.
47. Currently, the “Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements” subtopic (ET sec. 1.297) applies to responsible parties, as defined in the Statements on Standards for Attestation Engagements (SSAEs). The SSAEs state that a responsible party is a party responsible for the subject matter of the engagement.
48. PEEC concluded that an entity that is not subject to compliance attestation procedures is not a responsible party. PEEC is not proposing revisions to this subtopic.

### Effective date

49. PEEC recommends that the proposed revisions be effective for compliance audits commencing after June 15, 2023, with early implementation allowed.

### Request for comments

50. PEEC welcomes comments on all aspects of the proposed new definitions, the revised definition, and the two revised interpretations.
51. In addition, PEEC is seeking feedback on the following specific aspects of this proposal:

- a. Is the definition of “compliance audit” clear? If not, please explain how it should be clarified.
- b. Is the definition of “compliance audit attest client” clear? If not, please explain how it should be clarified.
- c. Do you agree that there should be an exception to the independence requirements in a compliance audit for entities that are not subject to compliance audit procedures and report amounts that are trivial and clearly inconsequential? If you disagree, please explain why.
- d. Do you agree that the affiliates interpretations should not apply in a compliance audit? If you disagree, please explain why.
- e. Do you agree that the revision in each of the affiliates interpretations serves as a useful reminder that these interpretations do not apply to specific attest engagements (e.g. compliance audits and engagements performed under the SSAEs)? If you disagree, please explain why.
- f. Do you agree that entities that are not subject to compliance attestation procedures in an engagement performed under the SSAEs are not considered responsible parties, and therefore, are not subject to the “Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements” subtopic (ET section 1.297)? If you disagree, please explain why.
- g. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.
- h. What independence requirements applicable to compliance audits would you like further explained through nonauthoritative guidance?

## Text of proposed new definitions “compliance audit” and “compliance audit attest client”

### 0.400 Definitions

.09 **Compliance audit.** An [attest engagement](#) that is performed under the Statements on Auditing Standards when the [member](#) is requested to report on an entity’s compliance with specific requirements. For example, the *member* may report on compliance requirements of a contractual agreement or regulatory requirements in accordance with AU-C section 806, or report on compliance under governmental audit requirements, such as Uniform Guidance, in accordance with AU-C section 935.

*A compliance audit attest engagement may include multiple compliance audit attest clients. For example, multiple compliance audit attest clients may have amounts included in a schedule of expenditures of federal awards in a compliance audit performed in accordance with Uniform Guidance.*

.10 **Compliance audit attest client.** An entity with respect to which a *compliance audit* is performed unless the entity

- is not subject to compliance audit procedures and
- reports amounts that are trivial and clearly inconsequential.

When an entity meets this definition, it is not considered a [financial statement attest client](#).

## Text of proposed revised definition “financial statement attest client”

(Additions are presented in ***bold italic*** text.)

### 0.400 Definitions

~~16.~~ **18 Financial statement attest client.** An entity whose financial statements are audited, reviewed, or compiled when the member’s compilation report does not disclose a lack of independence. ***This definition does not include a compliance audit attest client.***

## Text of proposed revised interpretation “Client Affiliates”

(Additions are presented in ***bold italic*** text.)

1.224.010 Client Affiliates

[Paragraphs .01–.04 are unchanged]

***.05 This interpretation does not apply to a compliance audit or an engagement subject to the “Independence Standards for Engagements Performed in Accordance with the Statements on Standards for Attestation Engagements” subtopic [1.297] of the “Independence Rule” [1.200.001].***

[Paragraphs .05–.09 are renumbered as .06–.10 but are otherwise unchanged]

## Text of proposed revised interpretation “State and Local Government Client Affiliates”

(Additions are presented in ***bold italic*** text.)

1.224.020 State and Local Government Client Affiliates

[Paragraphs .01–.06 are unchanged]

### Exceptions

***.07 This interpretation does not apply to a compliance audit or an engagement subject to the “Independence Standards for Engagements Performed in Accordance with the Statements on Standards for Attestation Engagements” subtopic [1.297] of the “Independence Rule” [1.200.001].***

[Paragraphs .07–.11 are renumbered as .08–.12 but are otherwise unchanged.]

## Acknowledgments

### Professional Ethics Executive Committee

Brian S. Lynch, Chair

Catherine Allen

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Dan W. Vuckovich

Douglas E. Warren

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### Compliance Audits Task Force

Nancy Miller, Chair

Ian Benjamin

Ralph DeAcetis

Anna Dourdourekas

Staci Henshaw

Lee Klumpp

Flo Ostrum

Lewis Sharpstone

Brittney Williams

### AICPA staff

Jennifer Kappler, Senior Manager – Professional Ethics

Melissa Powell, Manager – Professional Ethics

Michael Schertzinger, Manager – Professional Ethics

### Many thanks

The Professional Ethics Division and PEEC are grateful for the input we received from observers and stakeholders while drafting these proposed changes to the Code of Professional Conduct.

## Unpaid fees

### Task force members

Bill McKeown (chair), Tom Campbell, Jeff Lewis, Alan Long, Susan Siegmund, Doug Warren, Larry Wojcik

### Observers

Hanna Baillie, Daniel Dodson, Brandon Mercer, Shana Wolfson

### AICPA staff

Summer Young

### Task force charge

To develop a principles-based framework for members to determine when unpaid fees impair independence.

### Reason for agenda item

To obtain feedback from PEEC regarding the nonauthoritative guidance developed to assist members with implementing the revised interpretation.

### Task force activities

The task force developed three questions and answers for the revised “Unpaid Fees” interpretation (ET sec. 1.230.010).

### Q&A 1

Several comment letters requested additional guidance regarding use of the terms “covered member”, “clearly insignificant”, and “significant”.

The example in the Q&A focuses the evaluation of whether the unpaid fees are significant or clearly insignificant to the firm and engagement partner as these are covered members who will have the most impact on the engagement.

### **Applying the terms “clearly insignificant” and “significant” to covered members when evaluating the effect of unpaid fees.**

**Inquiry:** When determining whether unpaid fees impair independence, the significance of the unpaid fees to the [covered member](#) needs to be evaluated. Is it necessary to consider the significance of the unpaid fee amounts to both the firm and the engagement partner?

**Response:** Yes, it is necessary to consider the significance of unpaid fees to all *covered members*. If the unpaid fees are significant to the firm, the unpaid fees will also likely be significant to the engagement partner. However, there could be a situation where the unpaid

fees are clearly insignificant to the firm, but could be significant, quantitatively or qualitatively, to the engagement partner.

For example, many firms have compensation structures dependent upon fee collection. An unpaid fee near the firm's year-end may be clearly insignificant to the firm but could be significant to the engagement partner. Accordingly, if unpaid fees relate to the engagement partner's only attest client, collection of the fees could be a significant factor, quantitatively or qualitatively, when determining the engagement partner's compensation.

Question for the committee

1. Does the committee have any suggested revisions to the Q&A?

## Q&A 2

Several comment letters requested additional guidance regarding how to apply the pre-issuance review safeguard, including an engagement quality control review, in paragraph .04a of the revised "Unpaid Fees" interpretation.

### **Applying pre-issuance review to address threats from unpaid fees**

**Inquiry:** Paragraph .04 of the "Unpaid Fees" interpretation (ET sec. 1.230.010) provides examples of possible actions a firm can take to eliminate or reduce significant threats to independence. One such example is to have 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. How would this safeguard be applied at a small firm versus a large firm?

**Response:** An appropriate reviewer means an individual qualified to review the attest engagement at a technical level and in the specialty practice area if necessary, and who is not associated with providing services to the attest client. For a sole proprietor, this would likely require review by someone external to the firm. For a multi-partner firm, an engagement quality control reviewer or a professional in a national office role are examples of an appropriate reviewer.

Question for the committee

2. Does the committee have any suggested revisions to the Q&A?

### Q&A 3

In drafting the revised interpretation, the committee discussed the scenario of a client needing an unmodified audit opinion in order to obtain financing to pay the audit fee. The committee suggested this scenario be addressed in a Q&A.

#### **Fees cannot be paid until debt or equity financing is obtained, which is dependent on receipt of the audit report**

**Inquiry:** The last sentence of paragraph .03 of the “Unpaid Fees” interpretation (ET sec. 1.230.010) states other situations may require judgment to assess whether there are threats to a [covered member’s](#) compliance with the “Independence Rule” (ET sec. 1.200.001). What is an example of an other situation?

**Response:** An example of an other situation that may create threats is when an audit client’s ability to pay the firm’s fee is dependent upon the firm issuing an unmodified audit report for the client to obtain debt or equity financing.

If the *covered member* determines threats are not at an acceptable level, the “Conceptual Framework for Independence” (ET sec. 1.210.010) requires safeguards, such as those in paragraph .04 of the “Unpaid Fees” interpretation (ET sec. 1.230.010), be applied to reduce threats to an acceptable level. If safeguards cannot be applied to reduce threats to an acceptable level, the *covered member* should not complete the audit engagement if the firm is unable to maintain its independence.

If you are unsure how to apply the “Conceptual Framework for Independence,” the AICPA Professional Ethics Division has developed [a tool to help you](#).

Question for the committee

3. Does the committee have any suggested revisions to the Q&A?

#### **Communications plan**

A link to the nonauthoritative questions and answers will be added to the code at the end of the “Unpaid Fees” interpretation (ET sec. 1.230.010).

## 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 3B.

### Task force activities

During the development of the "[Assisting Attest Clients With Implementing Accounting Standards](#)" interpretation (ET sec. 1.295.113), the task force discussed at length the existing code requirement for management to designate an individual who possesses suitable skill knowledge and/or experience to oversee the service.

The task force added assisting clients with implementing accounting standards as an example to an existing Q&A.

Question for the committee

Does the committee have any suggested revisions to the Q&A?

### Communications plan

A link to the nonauthoritative questions and answers will be added to the code at the end of the "Assisting Attest Clients With Implementing Accounting Standards" interpretation (ET sec. 1.295.113).

### Materials presented

Agenda item 3B: 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:***

- ***Assisting clients with implementing accounting standards — When a member assists an attest client with 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. If the member believes the individual does not understand the standard enough, 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. To assist the individual, the member may also provide analysis on the potential impact of implementing the accounting standard, recommend possible revisions to existing policies, procedures and internal controls, and prepare 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]

## Protecting client confidentiality and data security

### Task force members

Tom Campbell (chair), Robyn Brown, Kathryn Fletcher, Glen Friedrich, Wendy Garrett, Alan Long, Stephanie Saunders

### Observers

Colleen Dewar and Brandon Mercer

### AICPA staff

Emily Daly

### Reason for agenda item

To request approval to update the task force charge for a standards-setting project. The original task force charge was for a member enrichment project, which is now complete. The proposed new charge is

Evaluate the need for revisions in the AICPA Code of Professional Conduct due to increased risks of intentional or unintentional disclosure of confidential information and technology-related revisions to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants.

### Task force activities

At the November 2021 PEEC meeting, the committee approved expanding the scope of the project to include standards-setting. The task force met in March 2022 to develop an updated charge and discuss the proposed technology-related revisions to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants.

### Action needed

The committee is asked to approve the updated standards-setting charge for the Protecting Client Confidentiality and Data Security project.

## Officers, directors, and beneficial owners

### AICPA staff

Ellen Gorla

### Reason for agenda item

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

### Background

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” have been stricken from certain interpretations in the code with the recent changes due to the [loans, acquisitions, and other transactions](#) project. This old threshold was replaced by “an 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”.

Staff received a question from two firms about whether these changes should be carried over to the four instances in other interpretations where the old threshold appears.

### Silent change to the “Conceptual Framework for Independence”

The reference to the old threshold in paragraph .16b of the “Conceptual Framework for Independence” (ET sec. 1.210.010) is a silent change because this item references the “Loans” interpretation (ET sec. 1.260.010) which was updated in the recent changes.

The conforming revision to paragraph .16b is in agenda item 5B.

### Gifts and entertainment

The 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) also use the old threshold.

These interpretations stipulate that when applying the 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* (emphasis added).

Page 6 of the [Background and Basis of Conclusions](#) document for the gifts and entertainment interpretations discusses the 10 percent threshold in paragraph 12.

Some commenters questioned the appropriateness of applying the proposed independence guidance (ethics ruling no. 114) to an individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests. In addition to covering those individuals in a key position at the client, these commenters believed the guidance should apply to owners that have "significant influence" over the operations of the attest client rather than referring to a numerical threshold such as 10%. Specifically, these commenters believed that it would be more appropriate for owners with less than 10% ownership who have significant involvement in the operations of the client to be covered by the guidance, rather than those who may own more than 10% of the client but who have no significant involvement in the operations of the business. While a few committee members agreed with this notion, most remained committed to the 10% threshold primarily for consistency with current independence guidance as it relates to loans (Interpretation 101-1A4 under Rule 101) which prohibits a covered member (except as specifically permitted in interpretation 101-5), from having any loan to or from a client, any officer or director of the client, or any individual owning 10% or more of the client's outstanding equity securities or other ownership interests.

Given that the committee agreed to use the 10 percent threshold primarily to be consistent with the loan guidance, staff believes it would be appropriate to expose revisions to the two gifts and entertainment interpretations so that the 10 percent threshold will be consistent with the threshold in the revised "[Loans](#)" interpretation (ET sec. 1.260.010).

Since individuals in a key position may include individuals other than officers and directors with the ability to affect decision-making, staff is not recommending that portion of the revised scope be incorporated.

The revisions to these interpretations are in agenda item 5B.

#### Conceptual Framework for Members in Public Practice

Paragraph .11 of the "Conceptual Framework for Members in Public Practice" (ET sec. 1.000.010) describes what the advocacy threat is and provides examples of that threat. One of the examples (item *b*) includes the situation where a firm acts as an investment advisor for an officer, a director or a 10 percent shareholder of a client.

This example means that if a firm provides investment advice to an officer, director or a 10 percent shareholder of a client, the advocacy threat would be present. The example does not stipulate that threats are not at an acceptable level.

Replacing the old threshold with the new threshold will better align the guidance with the committee's current thinking. The revision will not result in unintended consequences because this is just an example of the advocacy threat and does not conclude whether that threat is at an acceptable level.

The revision to this interpretation is in agenda item 5B.

#### Questions for the committee

1. Does the committee agree that this revision to the “Conceptual Framework for Independence” (ET sec. 1.210.010) is a silent change and does not need to be exposed?
2. Does the committee approve the proposed revisions to the gifts and entertainment interpretations (ET sec 1.120.010 and 1.285.010) and the “Conceptual Framework for Members in Public Practice” (ET sec. 1.000.010) for exposure?
3. Does the committee agree that the exposure period can be limited to 60 days?
4. Does the committee recommend the exposure draft propose that the revisions be effective as soon as notice can appear in the *Journal of Accountancy* so that the revisions will be effective as close as possible to the revised “Loans” interpretation?

#### Action needed

The committee is asked to determine if the thresholds should be updated as proposed. In addition, the committee is asked to determine the exposure period and a recommended effective date.

#### Communications plan

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

#### Materials presented

Agenda item 5B: Proposed revisions related to officers, directors, and beneficial owners

## Proposed revisions related to officers, directors, and beneficial owners

### 1.210.010 Conceptual Framework for Independence

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

[Paragraphs .01–.15 are unchanged.]

.16 Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, an attest client or persons associated with the attest client. Examples of self-interest threats include the following:

- a. A member has a direct financial interest or material indirect financial interest in the attest client. [1.240.010]
- b. A member has a loan from the attest client, an officer or a director of the attest client **with the ability to affect decision-making**, or an individual ~~who owns 10 percent or more of the attest client's outstanding equity securities~~ **with a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the attest client**. [1.260.010]
- c. A member or his or her firm relies excessively on revenue from a single attest client.
- d. A member or member's firm has a material joint venture or other material joint business arrangement with the attest client. [1.265]

[Paragraphs .17–.23 are unchanged.]

## 1.120.010 Offering or Accepting Gifts or Entertainment

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

.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

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

.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

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

[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.

[Paragraphs .12–.24 are unchanged.]

## IFAC convergence and monitoring

### Working group members

Brian Lynch (chair), Cathy Allen, Nancy Miller, Kathy Savage, Lisa Snyder

AICPA staff

Ellen Goria

### Reason for agenda item

The International Ethics Standards Board for Accountants (IESBA) issued its revisions to their [Definitions of Listed Entity and Public Interest Entity](#) on April 11, 2022. 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](#).

The IFAC Convergence and Monitoring Working Group recommends that PEEC undertake a convergence project to refine the definition of public interest entity (PIE) (ET sec. 0.400.41).

Entities covered by the PIE definition are already heavily regulated, and the regulators (e.g., SEC, PCAOB, FDIC, NAIC) have restrictive independence requirements that are generally as restrictive as the IESBA PIE requirements.

The preference is to avoid

- adding to the AICPA code a set of independence interpretations specific to PIEs and
- issuing interpretations that are inconsistent with those of the applicable regulators.

Three members of this working group and one member of the ASB volunteered to participate on this project.<sup>1</sup>

### Action needed

PEEC is asked to approve adding a convergence project for PIEs.

In addition, any other members of PEEC who would like to participate on this project should reach out to Jennifer Clayton and Ellen Goria.

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<sup>1</sup> Task force members include Lisa Snyder (chair), Cathy Allen, Nancy Miller, and Andrew Prather. Brandon Mercer is an observer.

## 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 but will be seeking input on the Technology and Engagement Team projects, which have exposure drafts outstanding.

### Question for the committee

Do you have any comments that should be included in our letter to IESBA on the Technology or Engagement Team exposure drafts?

### Materials presented

- Agenda item 7B: Tax planning and related services
- Agenda item 7C: Benchmarking
- Agenda item 7D: Technology
- Agenda item 7E: Engagement team
- Agenda item 7F: Strategy and work plan
- Agenda item 7G: 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 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 response framework.

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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.

## 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 professional accountants 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 April 2022, the task force held virtual roundtables to bring together as broad a range of stakeholders as possible globally to discuss the state of play and explore how IESBA could formulate the response framework for professional accountants in business and professional accountants in public practice.

Two members of PEEC, five members of the AICPA tax committees, and four staff participated in the roundtables. The discussion topics covered during the sessions were as follows:

- *Discussion topic 1: Acceptance to act in the public interest.* Paragraph 100.1 of the code

states that a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest.

- How would you balance a professional accountant's (PA's) responsibility to act in the client's or employing organization's interests versus their responsibility to act in the public interest when providing tax planning advice?
- What are the particular challenges PAs face when balancing the two interests?
- *Discussion topic 2: Providing tax planning advice when the local tax laws are unclear.* Assume a PA is advising a client or employing organization on a tax planning strategy where the local tax laws are unclear.
  - To what extent should the PA consider the legislature's intent?
  - How would the PA determine if the tax advice is potentially contrary to that intent?
  - How would the PA approach the tax strategy if it concerns a cross border transaction involving multiple jurisdictions?
  - Would the PA's assessment change if the tax strategy could be considered to be artificial or contrived?
- *Discussion topic 3: Advising an entity when the PA is not subject to independence rules.* There is only one provision in the code that deals with the topic of tax avoidance, and this is in the specific context of auditor independence. Paragraph R604.4 in the code prohibits a firm or a network firm from providing a tax service or recommending a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.
  - Assuming you are a professional accountant in public practice (PAPP) providing tax planning advice to a nonaudit client, how would you approach your advice to the client if you are uncertain that the tax treatment will prevail based on the applicable tax law or regulation?
  - Assuming you are a professional accountant in business (PAIB) in charge of formulating your employing organization's tax strategy, how would you approach your advice to the employing organization if you are uncertain that the tax treatment will prevail based on the applicable tax law or regulation?

- What specific factors should the PA consider in exercising their judgment?
- *Discussion topic 4: Referring client to third-party advisor.* A firm specializes in developing tax planning products for sale to the public. Assume you are a firm of professional accountants, and you are considering introducing your client to this other firm to meet your client's tax planning needs.
  - What ethical considerations, if any, would you apply in such a situation?
  - If you do introduce your client to that firm and you receive a commission or referral fee, would you disclose this to your client?
- *Discussion topic 5: Disagreement with supervisor.* Assuming you are a PAPP/PAIB, what should be your responsibility and the actions you should take if your client/CEO is determined to pursue a tax strategy
  - for which you have doubts about its appropriateness? Would your assessment change if there is a legal counsel's opinion which says the planning is effective?
  - that you do not believe is appropriate?
  - without taking your full advice?
- *Discussion topic 6: Additional considerations.* In light of the discussion we just had, is there anything else you believe IESBA should consider in developing the ethical framework?

The task force will use the feedback from the roundtable discussions to develop the proposed ethical framework.

## Benchmarking

### Convergence considerations

Though the project itself will not result in convergence, Professional Ethics Division staff plans to use the final report to identify potential topics that may warrant the division's and PEEC's further consideration, including whether the report could facilitate a comparison of the IESBA and AICPA codes.

### Project description

To compare the provisions in the International Independence Standards (IISs) that are applicable to public interest entities (PIEs) to the relevant independence requirements that apply in major jurisdictions, starting first with the requirements of the U.S. SEC and the U.S. PCAOB.

The goal of the initiative is to assess the alignment of the IISs and independence requirements in major jurisdictions and identify any substantive differences.

IESBA expects that the initiative will promote awareness and more broad adoption of the IISs and the IESBA code. The initiative will also help determine whether IESBA should evaluate specific areas and, if appropriate, address these as part of its future strategy and work plan.

### AICPA staff and PEEC input on the project

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

At the March 2022 IESBA meeting, the task force shared the [Draft Benchmarking International Independence Standards Phase 1 Report \(as of March 2022\)](#) and the [Draft Executive Summary Benchmarking International Independence Standards Phase 1 Report \(as of March 2022\)](#).

The task force received input on the documents during the March meeting including whether noncompliance with laws and regulations (NOCLAR) should be included in the analysis. IESBA plans to issue the final documents on May 6, 2022.

### Phase 1

Phase 1 is limited to providing an overview of the differences between the IISs and the U.S. SEC and U.S. PCAOB requirements. The comparison will highlight areas where the two sets of requirements are substantively similar in approach or outcome or both.

The analysis focuses on whether

- the provisions and rules address the same issues and achieve the same substantive outcomes and

- the focus areas and topics covered are those that are of greatest interest to IESBA, users of the IESBA code, and other stakeholders.

The focus areas and topics that will be included in the report are as follows:

- Overarching principles and approach (including NOCLAR)
- Key definitions
- Fee-related provisions
- Permissibility of nonassurance services (NAS) to audit clients, including prohibited services
- Auditors' communication with those charged with governance (TCWG) about independence matters, including pre-approval of NAS and disclosures about fees
- Financial relationships
- Business relationships
- Long association/partner rotation
- Gifts and hospitality

## Phase 2

The comparison in phase 1 took considerable staff bandwidth to prepare (full-time for 12 months) as well as significant task force time. As such, the planning committee will consider the outcome of benchmarking and recommend whether a phase 2 project is warranted.

If phase 2 is undertaken, the potential criteria for selecting the next jurisdiction to compare are as follows:

- Reach of output (number of professional accountants covered by the jurisdiction) and level of international relevance (such as regulatory interest)
- Interest to the jurisdiction (e.g., would comparison help with adoption of the code)
- Expected scope and difficulty of the work:
  - Similarity of structure and context between code and standards in the jurisdiction (e.g., does the national framework rely on the code and to what extent)
  - Has the jurisdiction conducted prior comparison work that can be built on or can

they contribute resources to the initiative (or both)?

- Does staff or the task force have access to “subject matter experts” to assist with interpretation?
- Have standards been recently updated? Are standards stable enough to allow for comparison (i.e., not in flux)?

## Technology

### Convergence considerations

Professional Ethics Division staff has not yet performed a preliminary assessment.

### 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).

### AICPA staff and PEEC input on the project

AICPA staff welcomes PEEC's comments on the project including any concerns the committee believes should be monitored or conveyed to the TTF, TWG, or IESBA, or included in PEEC's 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](#). Comments are due June 20, 2022. Professional Ethics Division staff are seeking input on the proposals during the May PEEC meeting.

#### 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.

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

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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), cyber-security, 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.

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 communicating ~~on~~, **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  
PEEC's Protecting Client Confidentiality and Data Security Task Force met to discuss the

confidentiality additions and offer possible feedback to include in PEEC's comment letter on the proposals. The task force's feedback on the confidentiality topics follows:

- 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:

- 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

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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.

whether they might impact any judgments the accountant has made

### 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

### 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

#### 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 this section 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 (i.e., section 600).

#### 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.

#### 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

## 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

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 appropriate audit evidence relating to the work performed at the component without involving

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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).

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).

### AICPA staff and PEEC input on the project

AICPA staff welcomes PEEC's comments on the project including any concerns the committee believes should be included in PEEC's comment letter on the [exposure draft](#).

Following is a summary of the components of the [exposure draft](#). Comments are due May 31, 2022. Professional Ethics Division staff are seeking input on the proposals during the May PEEC meeting.

### 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 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;**

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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.

~~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.***

#### 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 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.

#### 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

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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.”

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.

### 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).

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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).

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 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

During the March 2022 meeting the IESBA planning committee requested agreement on the work plan for 2022–2023 and approval to issue a strategy survey for purposes of developing the IESBA Strategy and Work Plan (SWP) 2024–2027.

Based on the feedback provided during the meeting, exhibit 1 outlines what staff believes the work plan will be for the remainder of 2022 and the first quarter of 2023.

The [IESBA Strategy Survey 2022](#) is open to the public and seeks stakeholder input on what key trends, developments or issues IESBA should consider as it begins the process of developing its SWP 2024–2027. The SWP is expected to be finalized by the end of 2023 for release in early 2024. Responses are requested by Friday, July 8, 2022.

## Agenda item 7F

Projects and initiatives	2022			2023
	Q2	Q3	Q4	Q1
Sustainability	Terms of reference and discussion	Discussion	Discussion	Preliminary report - factfinding
Tax planning and related services	Full review of roundtable feedback	First read	Approve exposure draft	
Technology Working Group	Preliminary report – fact finding	Final report – fact finding	Update	Update
Technology Task Force		Full review of ED comments	Second read – post ED	Approval
Engagement team	Update	Full review of ED comments	Approval	
PIE rollout and IAASB coordination	Discussion	Update	Update	
SWP		Full review of survey responses	First read of consultation paper	Approve consultation paper
Collective Investment Vehicles and pension funds				Terms of reference
NOCLAR Post Implementation Review				Discussion
IESBA-IAASB coordination	Update	Joint plenary		Update

Emerging Issues and Outreach Committee (EIOC)	Update			Discussion
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## Sustainability

In advance of beginning work on developing its Strategy and Work Plan (SWP) 2024–2027, IESBA considered [recommendations](#) from the Emerging Issues and Outreach Committee (EIOC) on the way forward to progress IESBA’s activities in relation to sustainability reporting and assurance.

IESBA agreed 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) (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.

It is projected that the working group will bring the terms of reference for the sustainability project to IESBA’s June 2022 meeting for discussion.