

FINANCIAL REPORTING COUNCIL

MONTHLY UPDATES (March 2022 & April 2022) – What’s new from the International Federation of Accountants (IFAC)

The main topics for discussion at the IFAC during the period from March 2022 to April 2022 were with respect to:

March 22

1. IESBA ADDRESSES INDEPENDENCE EXPECTATIONS IN GROUP AUDITS
2. CPA CANADA, ICAS, IESBA, AND IFAC RELEASE 3RD PUBLICATION IN SERIES EXPLORING ETHICS IN AN ERA OF COMPLEXITY AND DIGITAL CHANGE
3. IFAC RELEASES NEW EXPLORING THE IESBA CODE INSTALLMENT FOCUSED ON TECHNOLOGY
4. IFAC WELCOMES U.S. SEC’S ACTION TO ENHANCE CLIMATE DISCLOSURES; CONTINUES SUPPORT FOR GLOBAL ALIGNMENT
5. IFAC AND ICAEW EXAMINE RECENT CRIME TRENDS IN LATEST INSTALLMENT OF ANTI-MONEY LAUNDERING THOUGHT LEADERSHIP SERIES

April 22

6. IFAC CONGRATULATES THE ISSB ON PUBLICATION OF ITS FIRST TWO PROPOSED STANDARDS ADDRESSING CLIMATE AND GENERAL SUSTAINABILITY-RELATED DISCLOSURES
7. IFAC RELEASES NEW IMPLEMENTATION TOOL FOR AUDITORS
8. IAASB MODERNIZES ITS STANDARD FOR GROUP AUDITS IN SUPPORT OF AUDIT QUALITY
9. GLOBAL ETHICS BOARD EXPANDS UNIVERSE OF ENTITIES THAT ARE PUBLIC INTEREST ENTITIES
10. NEW IFAC AUDIT FEES SURVEY REVEALS AUDIT, TAX, OTHER SERVICES INSIGHTS

1. IESBA ADDRESSES INDEPENDENCE EXPECTATIONS IN GROUP AUDITS

The International Ethics Standards Board for Accountants (IESBA) has on 28 February 2022 released for public comment the Exposure Draft *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits*.

The proposed revisions establish provisions that comprehensively address independence considerations for firms and individuals involved in an engagement to perform an audit of group financial statements. The proposals also address the independence implications of the change in the definition of an engagement team—a concept central to an audit of financial statements—in the International Auditing and Assurance Standards Board’s (IAASB) *International Standard on Auditing (ISA) 220, Quality Management for an Audit of Financial Statements*.

“Auditor independence, in fact and in appearance, is fundamental to public trust and confidence in the financial statement audit, which in turn plays a major role in safeguarding the integrity of the financial system,” said IESBA Chair Ms. Gabriela Figueiredo Dias. “These proposals bring much needed clarifications and reinforcement in an area of auditor independence that can be especially challenging, given that many audits are performed for the largest and most complex groups around the world. I wish to acknowledge the close coordination with, and support of, the IAASB in developing those proposals.”

Among other matters, the proposals:

- Establish new defined terms and revise a number of existing terms, including for application with respect to independence in a group audit context.
- Clarify and enhance the independence principles that apply to:
 - ✓ Individuals involved in a group audit.
 - ✓ Firms engaged in the group audit, including firms within and outside the group auditor firm’s network.
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, including reinforcing the need for appropriate communication between the relevant parties and with those charged with governance of the group.
- Align a number of provisions in the Code to conform to changes in the IAASB’s Quality Management standards.

The development of the proposals has benefited from close coordination with the IAASB’s group audits and quality management projects.

How to Comment

Stakeholders are invited to comment on the ET-GA ED by visiting the IESBA’s website by May 31, 2022.

2. CPA CANADA, ICAS, IESBA, AND IFAC RELEASE 3RD PUBLICATION IN SERIES EXPLORING ETHICS IN AN ERA OF COMPLEXITY AND DIGITAL CHANGE

On 01 March 2022, the Chartered Professional Accountants of Canada (CPA Canada), the Institute of Chartered Accountants of Scotland (ICAS), the International Ethics Standards Board for Accountants (IESBA), and the International Federation of Accountants (IFAC) have released [*Identifying and mitigating bias and mis- and disinformation*](#), the third publication in a four-part thought-leadership series examining the impact of rapid technological change on ethical leadership and the accountancy profession. The latest installment examines the high-stakes impact that bias and mis- and disinformation have on trust and objective decision-making.

“Professional accountants are trusted as a source of reliable and objective information, but they are not immune to the dangers of bias, mis- and disinformation that challenge objectivity and make it difficult to assess information and make competent decisions,” said lead authors Brian and Laura Friedrich. “They need to be diligent in applying professional skepticism and an inquiring mind to ensure they help combat these issues, in line with their public interest responsibilities.”

Identifying and mitigating bias and mis- and disinformation considers a layered approach to meeting relevant professional obligations and revisits some of the themes from prior papers. Guidance is provided as to practical implications for both the professional accountancy organizations and individual Professional Accountants.

Identifying and mitigating bias and mis- and disinformation follows [*Technology is a double-edged sword with both opportunities and challenges for the accountancy profession and Complexity and the professional accountant: Practical guidance for ethical decision-making*](#), the first two publications in the series, and builds off a collaborative exploratory paper and global roundtable event called Ethical Leadership in an Era of Complexity and Digital Change, which CPA Canada, ICAS and IFAC jointly hosted in 2021. The fourth publication in the series will focus on mindset and enabling skills.

The publication is available on the [*IFAC Knowledge Gateway*](#) and the [*IESBA’s webpage Technology: Ethics & Independence Considerations*](#).

3. IFAC RELEASES NEW EXPLORING THE IESBA CODE INSTALLMENT FOCUSED ON TECHNOLOGY

The International Federation of Accountants (IFAC) has on 18 March 2022 released a new resource, [*Exploring the IESBA Code, A Focus on Technology: Artificial Intelligence*](#). This two-page publication highlights the [*application of the International Code of Ethics for Professional Accountants \(including International Independence Standards\)*](#) (the Code), in particular, the relevance of the Code’s fundamental principles and its conceptual framework to addressing ethics issues that might arise when artificial intelligence (AI) is used or implemented by professional accountants. Specifically, the installment sets out an AI scenario to assist accountants in identifying, evaluating and addressing threats to compliance with the Code’s fundamental principles.

Originally launched in 2019, the Exploring the IESBA Code is a unique resource developed in collaboration with the staff of the IESBA. This installment focusing on AI has also benefited from input from the IESBA's Technology Working Group. The Exploring the IESBA Code series is intended to promote awareness of the Code and support its global adoption and implementation. It is non-authoritative and is not a substitute for reading the Code. Each installment highlights important concepts and topics in the Code and seeks to help readers understand how to use and navigate the Code so that they can quickly identify and access the ethics and independence standards and guidance relevant to them.

Previous installments have been translated into multiple languages. Topics previously covered by the series include: the fundamental principles, the conceptual framework, auditor independence, conflicts of interest, inducements, responding to non-compliance with laws and regulations (NOCLAR), pressure, the role and mindset expected of the professional accountant with a focus on bias, and the "building blocks" structure of the Code.

4. IFAC WELCOMES U.S. SEC'S ACTION TO ENHANCE CLIMATE DISCLOSURES; CONTINUES SUPPORT FOR GLOBAL ALIGNMENT

The International Federation of Accountants (IFAC) has on 22 March 2022 welcomed the [U.S. SEC's proposal on enhanced climate disclosures](#), as we continue our work in support of a global system for delivering consistent, comparable and assurable sustainability information. The SEC's action is one more important demonstration of the need to enhance and evolve corporate reporting.

Sustainability-related disclosure is now a core component of the corporate reporting ecosystem, as reflected in global and jurisdiction-specific initiatives. Climate and other ESG matters are decision critical. Regulatory frameworks must promote rigor, clarity, and consistency of information, both to meet investor demands and those of other stakeholders.

The SEC's proposal also acknowledges the importance of high-quality assurance—to bring confidence and trust to what is disclosed. This is consistent with the [work of IOSCO at the global level](#), which has identified independent assurance as a "key element of building trust in sustainability reporting." See [IFAC's Vision for High-Quality Assurance of Sustainability Information](#).

IFAC CEO Kevin Dancey said, "This SEC proposal allows policymakers and stakeholders worldwide to compare and contrast important initiatives that are taking place on climate-related disclosure, including the work of the newly established International Sustainability Standards Board under the IFRS Foundation, that of the European Union, and others.

"Alignment among all these initiatives is imperative for decision-useful information. It's critical that we create a harmonized, global system of sustainability and climate disclosure and avoid a patchwork of standards and regulations emerging across jurisdictions. IFAC also supports regulations that promote narrative as well as performance-focused measurements and that better align sustainability disclosure with financial reporting."

5. IFAC AND ICAEW EXAMINE RECENT CRIME TRENDS IN LATEST INSTALLMENT OF ANTI-MONEY LAUNDERING THOUGHT LEADERSHIP SERIES

Together with ICAEW, The International Federation of Accountants (IFAC) has on 28 March 2022 released a new installment in its **Anti-Money Laundering: The Basics** educational series: [Installment Eight: Crime Trends](#).

The publication is part of a series helping accountants enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest. Installment eight looks at recent crime trends like human trafficking and terrorist financing and the role money laundering plays.

Anti-Money Laundering: The Basics is user-friendly, easily accessible, and will be a resource for Small and Medium Practices (SMPs) and accountants less familiar with AML, while also providing guidance for those looking for a quick refresher or reference.

Anti-Money Laundering: The Basics is featured on both the IFAC ([landing page](#)) and ICAEW websites and available for download for free. To be globally relevant, the series uses the risk-based approach of the Financial Action Task Force (FATF) – the global money laundering and terrorist financing watchdog -- as a starting point.

6. IFAC CONGRATULATES THE ISSB ON PUBLICATION OF ITS FIRST TWO PROPOSED STANDARDS ADDRESSING CLIMATE AND GENERAL SUSTAINABILITY-RELATED DISCLOSURES

As the global voice of the accountancy profession, IFAC has supported the [establishment of the International Sustainability Standards Board \(ISSB\)](#) to develop a comprehensive global baseline of sustainability disclosures for investors and capital markets, endorsed by IOSCO and implemented around the world. This will lead the way to a harmonized, global system of consistent, comparable, reliable, and assurable information.

Now, [two new proposed standards](#) from the ISSB address the urgency of the climate crisis and chart a course for companies and policymakers to transition to ISSB Sustainability Disclosure Standards as they become available. Importantly, they build upon TCFD recommendations and SASB Standards, in addition to the work of the Climate Disclosure Standards Board, the International Accounting Standards Board, the Value Reporting Foundation, and the World Economic Forum.

IFAC CEO Kevin Dancey said, “Alignment among various sustainability-related initiatives is important, so we strongly support the ISSB’s continued work with international organizations and jurisdictions so that these global baseline proposals can be incorporated into jurisdictional requirements and be compatible with disclosures that address broader stakeholder sustainability information needs. Following an inclusive and transparent due process, consistent with that of the IASB, will drive confidence and acceptance around the world.”

IFAC will be responding and encourages members of the accountancy profession to contribute their expertise on these two proposals, as well as related jurisdiction-specific initiatives, so that

global alignment and interoperability, connectivity to financial information, and the assurability of sustainability disclosures is achieved.

7. IFAC RELEASES NEW IMPLEMENTATION TOOL FOR AUDITORS

The International Federation of Accountants (IFAC) has on 05 April 2022 released a new resource, [Auditing Accounting Estimates: ISA 540 \(Revised\) Implementation Tool](#). It will help auditors implement the International Auditing and Assurance Standards Board's International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures by providing an overview of steps practitioners could take and related considerations.

For entities of all types and sizes, management has to make accounting estimates, which have estimation uncertainty and may also be complex. Making these estimates involves selecting and applying a method using assumptions and data, which requires judgment. The nature, timing and extent of the audit procedures required will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement.

This implementation tool contains “what”, “why” and “how” suggestions. These are not all-encompassing and more or different considerations may apply depending on the circumstances of the engagement. The implementation tool also works in conjunction with the IAASB's previously published ISA 540 (Revised) flowcharts showing the requirements flow. The choice of specific procedures an auditor decides to perform to meet the requirements of ISA 540 (Revised) and other relevant ISAs is a matter of professional judgement. This implementation tool does not replace the need to read ISA 540 (Revised), including its application and other explanatory material.

The publication is based on the Chartered Professional Accountants of Canada (CPA Canada) Implementation Tool and supports efforts to improve audit quality globally and, more broadly, international standards' adoption and implementation. Additional guidance and resources are available on the dedicated Supporting International Standards section of the IFAC Knowledge Gateway.

8. IAASB MODERNIZES ITS STANDARD FOR GROUP AUDITS IN SUPPORT OF AUDIT QUALITY

The International Auditing and Assurance Standards Board (IAASB) has on 07 April 2022 released [International Standard on Auditing \(ISA\) 600 \(Revised\)](#). The revised standard addresses special considerations that apply to audits of group financial statements (group audits). Group audits are often more complex and challenging than single-entity audits because a group may have many entities or business units across multiple jurisdictions, and component auditors may be involved. The revised standard becomes effective for audits of group financial statements for periods beginning on or after December 15, 2023.

“ISA 600 (Revised) is a significant step forward to enhance the consistent performance of quality group audit engagements and thereby supports users' interests and broader financial stability,” said Tom Seidenstein, IAASB Chair. “Group audits is an area identified by regulators requiring attention. The changes in the standard build off other recent IAASB revisions, such as the revisions to the quality management standards, and should enhance audit quality by

strengthening the accountability of group auditors and clarifying the interactive relationship between group and component auditors.”

ISA 600 (Revised) includes a robust risk-based approach to planning and performing a group audit. The approach focuses the group auditor’s attention and work effort on identifying and assessing the risks of material misstatement of the group financial statements and designing and performing further audit procedures to respond to those assessed risks. It also recognizes that component auditors can be, and often are, involved in all phases of the group audit. The standard furthermore promotes a clear, proactive and scalable approach for group audits that can be applied to today’s evolving group audit structures.

The IAASB also developed a Basis for Conclusions and factsheet to support the implementation, which are also available on the IAASB’s website.

9. GLOBAL ETHICS BOARD EXPANDS UNIVERSE OF ENTITIES THAT ARE PUBLIC INTEREST ENTITIES

The International Ethics Standards Board for Accountants (IESBA) has on 11 April 2022 released a *revised definition of a PIE* together with other revised provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code)*. The revised provisions specify a broader list of categories of entities as PIEs whose audits should be subject to additional independence requirements to meet stakeholders’ heightened expectations concerning auditor independence when an entity is a PIE.

“The concept of a PIE is central to the application of the IIS and determines how far an auditor must go in meeting the fundamental requirement to be independent,” said IESBA Chair Gabriela Figueiredo Dias. “The revised definition and related provisions represent the third pillar in our package of measures to significantly strengthen auditor independence in the public interest, following the release of our revised Non-Assurance Services and Fees standards last year.”

To recognize diversity in jurisdictional contexts, the IESBA has taken a novel approach of expanding the PIE definition globally at a high level while providing guidance to regulators, national standard setters and other relevant local bodies on tailoring the broad definition for jurisdictional specificities. Among other matters, the revisions also:

- Articulate an overarching objective for additional independence requirements for audits of financial statements of PIEs.
- Provide guidance on factors to consider when determining the level of public interest in an entity.
- Replace the term “listed entity” with a new term “publicly traded entity,” providing a definition of the latter term.
- Recognize the essential role local bodies responsible for the adoption of the Code play in delineating the specific entities that should be scoped in as PIEs in their jurisdictions, encouraging them to properly refine the PIE categories and adding any other categories relevant to their environments.
- Introduce a transparency requirement for firms to publicly disclose the application of independence requirements for PIEs where they have done so.

The IESBA coordinated the development of these revisions closely with the International Auditing and Assurance Standards Board (IAASB) given that some of the terms and concepts that were considered are common to both Boards' standards. The IAASB is pursuing a project to consider a number of matters relevant to its standards arising from the finalization of the IESBA's PIE provisions, including whether and how to address the transparency requirement noted above in the IAASB's standards.

The revised PIE definition and related provisions become effective for audits of financial statements for periods beginning on or December 15, 2024. Early adoption is permitted and encouraged.

10. NEW IFAC AUDIT FEES SURVEY REVEALS AUDIT, TAX, OTHER SERVICES INSIGHTS

To answer questions about the cost of audit and how it compares to the fees companies pay for other professional services provided by statutory auditors, the International Federation of Accountants (IFAC) has on 25 April 2022 published [Audit Fees Survey 2022: Understanding Audit and Non-Audit Service Fees, 2013-2020](#). The new study details information about audit-related, tax-related, and other non-audit professional services in the US, Canadian, and European markets across mega-cap, large-cap, mid-cap, small-cap, and micro-cap exchange-listed companies in nine industries.

"The data clearly shows differences across jurisdictions and industries, while demonstrating that fees for non-audit services appear to be on a flat or declining trend," said IFAC CEO Kevin Dancey. "As audit quality and reform continue to be a focus for the global accountancy profession, this data provides necessary transparency and fosters understanding about the quality, cost and value of the professional services that public practice firms provide to their clients."

This study updates an analysis first published by IFAC in 2019. IFAC also plans to update this study with fiscal year 2021 data later this year.

For further information: <http://www.ifac.org>

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