

## FINANCIAL REPORTING COUNCIL

### MONTHLY UPDATES (January 2023 & February 2023) – What's new from the International Federation of Accountants (IFAC)

The main topics for discussion at the IFAC during the period from January 2023 to February 2023 were with respect to:

#### January 2023

1. **IAASB LAUNCHES CONSULTATION ON PROPOSED STRATEGY AND WORK PLAN FOR 2024-2027**
2. **IESBA PLANS GLOBAL ROUNDTABLES ON SUSTAINABILITY PROJECT**
3. **IAASB OPENS PUBLIC CONSULTATION ON LESS COMPLEX GROUP AUDITS**

#### February 2023

4. **GLOBAL ETHICS BOARD RAISES EXPECTATIONS OF ETHICAL CONDUCT IN TAX PLANNING**
5. **JOINT STATEMENT FROM THE IESBA AND IAASB CHAIRS ON THE ISSB'S PROGRESS TOWARD INAUGURAL INTERNATIONAL SUSTAINABILITY STANDARDS**
6. **IPSASB, IFAC & ACCOUNTANCY EUROPE HOST INTERACTIVE DISCUSSION + RECEPTION ON PUBLIC SECTOR SUSTAINABILITY REPORTING**
7. **MOMENTUM BUILDS FOR CORPORATE ESG DISCLOSURE AND ASSURANCE, YET REPORTING INCONSISTENCIES LINGER, STUDY FINDS**
8. **IESBA STRENGTHENS AND CLARIFIES INDEPENDENCE REQUIREMENTS FOR GROUP AUDITS**

## 1. IAASB LAUNCHES CONSULTATION ON PROPOSED STRATEGY AND WORK PLAN FOR 2024-2027

The International Auditing and Assurance Standards Board (IAASB) has on 11 January 2023 issued a [public consultation for its 2024-2027 proposed strategy and work plan](#). The strategy seeks to accelerate the actions originally laid out in the 2020-2023 strategy with a focus on standard setting that supports the performance of high-quality audit and assurance engagements.

“Audit and assurance play vital roles in the world’s economies. At their best, audit and assurance practitioners enhance trust in markets and assist in efficient, sustainable resource allocation,” noted IAASB Chair Tom Seidenstein. “Our proposed new strategy strives to develop the globally accepted standards for audit, assurance and related services that enable high-quality engagements, with a distinct focus on both the core need for audits of financial statements and the growing demand for sustainability assurance engagements.”

The proposed strategy outlines four strategic objectives:

- Support the consistent performance of quality audit engagements by enhancing our auditing standards in areas where there is the greatest public interest need;
- Establish globally accepted standard(s) for assurance on sustainability reporting;
- Strengthen coordination with the International Ethics Standards Board for Accountants and other leading standard setters and regulators to leverage better collective actions in the public interest; and
- Create more agile, innovative ways of working in line with the Monitoring Group’s reform vision.

The IAASB’s 2024-2027 work plan describes the technical standard-setting work required to support the strategy. The work plan focuses on where further standards’ development can best contribute to meeting the needs of stakeholders in the external reporting ecosystem, while balancing timeliness with quality.

All stakeholders are invited to comment on the proposed strategy and work plan via the IAASB website by **April 11, 2023**.

## 2. IESBA PLANS GLOBAL ROUNDTABLES ON SUSTAINABILITY PROJECT

The International Ethics Standards Board for Accountants (IESBA) will hold a series of four global roundtables to obtain stakeholder input to help shape the development of new ethics and independence standards for sustainability reporting and assurance.

Demand for timely, relevant, and trustworthy sustainability information has risen dramatically in recent years as such information is increasingly being used to support capital allocation or other decisions by investors, customers, workers, government agencies, and other stakeholders. In response to such demand, the IESBA announced in June 2022 its [commitment](#) to take timely action to develop fit-for-purpose, globally applicable ethics and independence standards as a critical part of the infrastructure needed to support transparent, relevant, and trustworthy sustainability reporting and assurance. Importantly, this strategic commitment sets

up the IESBA's ethics and independence standards as the third pillar to trustworthy sustainability reporting and assurance, alongside the standards being developed by the [International Sustainability Standards Board \(ISSB\)](#) and the [International Auditing and Assurance Standards Board \(IAASB\)](#).

In December 2022, the IESBA approved two new standard-setting projects that will develop profession-agnostic ethics and independence standards for sustainability reporting and assurance and on the related topic of "use of experts."

The quality of the standards to be developed and their ability to meet the needs of the users and any providers of sustainability information will critically depend on timely contributions and input from stakeholders globally. The roundtables being organized aim at providing stakeholders the opportunity to convey relevant information to be addressed in developing the standards.

### **3. IAASB OPENS PUBLIC CONSULTATION ON LESS COMPLEX GROUP AUDITS**

The International Auditing and Assurance Standards Board (IAASB) opened the [public consultation](#) on 24 January 2023 for a group audit-specific section of the [proposed auditing standard for less complex entities \(LCEs\)](#). [The proposed section, Part 10, Audits of Group Financial Statements](#), is intended to form part of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) when finalized. The exposure draft is open for public comment until May 2, 2023.

Group audits were not included in the scope of the original Exposure Draft of the ISA for LCE. Given stakeholder feedback, the IAASB reconsidered its decision to exclude group audits and developed proposals that address audits of less complex groups.

With the inclusion of group audits, the IAASB has proposed changes to the Authority of the proposed ISA for LCE. For example, the IAASB removed the prohibition on using the standard when the audit is a group audit unless component auditors are involved, other than in limited circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., for attending a physical inventory count or inspecting physical assets).

The IAASB invites all stakeholder to comment on the exposure draft via the IAASB website. Comments are requested by **May 2, 2023**.

### **4. GLOBAL ETHICS BOARD RAISES EXPECTATIONS OF ETHICAL CONDUCT IN TAX PLANNING**

The International Ethics Standards Board for Accountants (IESBA) has on 17 February 2023 released for public comment the Exposure Draft [Proposed Revisions to the Code Addressing Tax Planning and Related Services](#).

The proposed revisions respond to public interest concerns about tax avoidance and the role played by consultants, including professional tax advisers, in light of revelations in recent years such as the [Paradise](#) and [Pandora](#) Papers. The proposals strengthen the ethical expectations for

professional accountants in business and in public practice when performing tax planning activities for employing organizations or providing tax planning services to clients, respectively.

“The accountancy profession plays a trusted role in facilitating the efficient and effective operation of a jurisdiction’s tax system and in making it a pillar of the economic system,” said IESBA Chair Ms. Gabriela Figueiredo Dias. “However, it is crucial that there are clear and robust ethical guardrails when professional accountants assist their employing organizations’ and clients’ tax planning to safeguard the public interest. These timely proposals are also designed to provide professional accountants with practical guidance to navigate the ethical challenges in this complex area.”

Among other matters, the proposed ethical framework:

- Explains the types of threats to compliance with the fundamental ethics principles of the Code that might be created when professional accountants are involved in tax planning.
- Sets a clear principle that professional accountants recommend or otherwise advise on a tax planning arrangement only if they have determined that there is a credible basis in laws and regulations for it.
- Requires consideration of the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the tax planning arrangement before determining whether to proceed with the recommendation or advice.
- Provides practical guidance to assist professional accountants in navigating situations of uncertainty when carrying out tax planning.
- Deals with other practical matters, including disagreement with the client or management or those charged with governance, and documentation.

The development of the proposals has been informed by extensive fact finding and outreach to stakeholders, including three global roundtables held in April 2022.

All stakeholders are invited to comment on the Exposure Draft by **May 18, 2023** by visiting the IESBA’s website.

## 5. **JOINT STATEMENT FROM THE IESBA AND IAASB CHAIRS ON THE ISSB’S PROGRESS TOWARD INAUGURAL INTERNATIONAL SUSTAINABILITY STANDARDS**

The International Ethics Standards Board for Accountants and the International Auditing and Assurance Standards Board applauded the [recent announcement on 21 February 2023 by the International Sustainability Standards Board \(ISSB\) that final decisions for all technical content related to ISSB's inaugural sustainability standards](#) have been made and that the ISSB is entering the final stages of the standards development process ahead of an expected issuance at the end of Q2 2023.

We echo the recent statement of support from the [International Organization of Securities Commissions \(IOSCO\)](#) and appreciate IOSCO's encouragement for our boards’ work to develop standards by the end of 2024. The IOSCO statement is a timely reminder that providing the

necessary assurance and ethics standards is essential to complete the sustainability reporting and assurance standards infrastructure. We will continue to work closely with all parties as we develop our sustainability standards, which we will discuss at our respective March meetings.

## **6. IPSASB, IFAC & ACCOUNTANCY EUROPE HOST INTERACTIVE DISCUSSION + RECEPTION ON PUBLIC SECTOR SUSTAINABILITY REPORTING**

Progressing sustainable development goals, including those related to climate change, requires urgent public sector action. Yet, as of now, no internationally recognized public sector reporting framework exists to help governments to measure and report on their critical contributions to addressing the global climate emergency and other sustainability challenges. With its public sector standard setting expertise and support of the international community, the International Public Sector Accounting Standards Board (IPSASB) is exploring how it might change that.

IPSASB, IFAC and Accountancy Europe will host an interactive discussion around key ideas the IPSASB is exploring related to the development of sustainability standards and the resources necessary to deliver the urgently needed public sector reporting guidance.

*Equipping the Public Sector for Sustainability Action: Advancing transparency, comparability, and accountability with sustainability reporting* will be held in Brussels, Belgium on April 4, 2023, from 4:00pm-6:00pm followed by a networking reception until 7:00pm.

“The urgency of advancing public sector sustainability reporting cannot be overstated,” said Ian Carruthers, IPSASB Chair. “While the IPSASB is pleased to be playing a leading role in developing the thinking on this initiative, the involvement of the global community will also be crucial to equipping the public sector with the tools it needs to address climate change and other sustainability challenges.”

“Public sector specific sustainability reporting standards will undoubtedly strengthen the global response to the climate crisis,” said Kevin Dancey, IFAC CEO. “IFAC applauds the IPSASB's lead on addressing this gap and encourages all of our stakeholders to get involved however they can.”

“The public sector is essential to the economy in European countries: the necessary transition will not happen without it”, said Olivier Boutellis-Taft, Accountancy Europe’s CEO. “Proper sustainability reporting is a minimum and long-awaited first step. We applaud the IPSASB’s leadership and look forward to this discussion.”

## **7. MOMENTUM BUILDS FOR CORPORATE ESG DISCLOSURE AND ASSURANCE, YET REPORTING INCONSISTENCIES LINGER, STUDY FINDS**

The largest global companies continue to show momentum on corporate reporting and related assurance involving environmental, social and governance (ESG) issues, *according to a new report* from the International Federation of Accountants (IFAC) and AICPA & CIMA, the latter two of which form the Association of International Certified Professional Accountants.

Significant hurdles remain, however, when it comes to providing consistent, comparable and high-quality sustainability information for investors and lenders,

Some 95% of large companies reported on ESG matters in 2021, the latest year available, the IFAC-AICPA & CIMA study found. That’s up from 91% in 2019. Sixty-four percent of companies obtained assurance over at least some ESG information in 2021, up from 51% in 2019. The inability so far to coalesce around agreed upon global standards continues to create challenges, however.

“Even as we see companies increasingly report on ESG and sustainability, the data we’re tracking reveals continuing fragmentation around the world in terms of which standards and frameworks are used,” noted IFAC CEO Kevin Dancey. “Eighty-six percent of companies use multiple standards and frameworks. This patchwork system does not support consistent, comparable, and reliable reporting. Importantly, it also does not provide the necessary foundation for globally consistent, high-quality sustainability assurance.”

The report also examines the extent to which companies provide forward-looking information on emissions reduction targets and plans. While two-thirds of companies disclosed targets, they lag the rate at which companies report their historic greenhouse gas emissions (97%).

“Steady increases in reporting and assurance are significant, yet more companies need to take the additional step to obtain assurance to build trust and confidence in what they report,” said Susan Coffey, AICPA & CIMA’s CEO of public accounting. “Our profession’s role in providing that assurance is crucial. CPAs have unquestioned competence, professional judgment and operate within a robust system built with public protection in mind. We should be the clear choice for instilling trust and value in ESG data around the world.”

#### Additional Key Findings

- Use of Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-Related Financial Disclosures (TCFD) framework have increased significantly between 2019 and 2021: there was a 29% increase for SASB standards usage and 30% for the TCFD framework.
- While accounting firms conduct more engagements, their market share—57% of sustainability/ESG assurance engagements—has declined from 63% in 2019.
- When companies obtained assurance from a professional accountant, they chose their statutory auditor 70% of the time.
- Globally, the International Auditing and Assurance Standards Board’s International Assurance Engagement Standard 3000 (Revised) remains the most popular standard when providing assurance:
  - ✓ 95% of firms providing assurance use ISAE 3000, up from 88% in 2019.
  - ✓ 38% of non-accountant service providers use ISAE 3000, up from 34% in 2019.

## 8. IESBA STRENGTHENS AND CLARIFIES INDEPENDENCE REQUIREMENTS FOR GROUP AUDITS

The International Ethics Standards Board for Accountants (IESBA) has on 28 February 2023 released *final revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code)* to address holistically the various independence considerations in an audit of group financial statements. The revisions also deal with the independence and other implications of the changes made to the definition of an engagement team in the Code to align with changes to the definition of the same term in the International Auditing and Assurance Standards Board's (IAASB) International Standards on Auditing (ISAs) and International Standards on Quality Management (ISQMs).

“Group audits play a fundamental role in safeguarding the integrity of, and public trust in, the financial markets,” said Ms. Gabriela Figueiredo Dias, IESBA Chair. “For a long time, there was a vacuum in international standards addressing the independence of audit firms and individuals involved in group audits, leading to uncertainty and inconsistent practice around the world. This standard effectively closes that gap and responds in a timely manner to a public interest need for robust and clear requirements for independence in this important area.”

Among other matters, the *revisions*:

- Strengthen and clarify the independence principles that apply to:
  - ✓ Individuals involved in a group audit, including those within, or engaged by, firms that audit components within a group.
  - ✓ Firms engaged in the group audit, including firms within and outside the group auditor firm's network.
- Specify the need for, and content of, appropriate communication on independence matters between the group auditor firm and component auditor firms participating in the group audit.
- More explicitly set out the process to address a breach of an independence provision at a component auditor firm, reinforcing the importance of transparency and appropriate communication with those charged with governance of the group.
- Amend the definitions of the terms “engagement team” and “audit team” in the Code to recognize the different and evolving engagement team structures, and address the implications of those definitional changes.
- Provide guidance to facilitate the determination of who is included in an engagement team or an audit team.
- Revise the definitions of a number of existing terms and establish new defined terms with respect to independence in a group audit context.

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

The pronouncement will be effective for audits of financial statements and group financial statements for periods beginning on or after December 15, 2023, with early adoption permitted.

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

**Financial Reporting Council**

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