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8 July 2022

Mr. Ken Siong  
Program and Senior Director  
International Ethics Standards Board for Accountants  
529 5th Avenue  
New York, New York 10017  
USA

Re: *IESBA Strategy Survey 2022*

Dear Mr. Siong,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) survey in respect of *IESBA's Future Strategy and Work Plan* (the survey).

Overall, BDO is supportive of the proposed strategy and work plan and have presented our responses to each of the specific questions raised below.

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## Section A: Demographic Information

### Personal and organizational information

Your name: **Chris Smith**

Your Organization (if applicable): **BDO Global**

Your role: **Global Head of Auditing and Accounting**

Email address: **chris.smith@bdointernational.com**

### Stakeholder Group

Please specify the stakeholder you/your organization represents

- Academia
- Accounting/Audit firm or network**
- Audit oversight body
- IFAC member body or other professional accountancy organization
- Investor or analyst
- National standard setter
- Other users of financial statements/Environmental, Social and Governance (ESG) information (e.g., customer, creditor/supplier, lender), please specify: \_\_\_\_\_
- Preparer of financial statements/ESG information
- Firm (other than an accounting/audit firm) that provides assurance on ESG information
- Public sector
- Regulator
- Those charged with governance
- Other, please specify: \_\_\_\_\_

### Geographical location

Please specify the geographical region where you or your organization is based:

- Global**
- Africa-Middle East
- Asia
- Oceania
- Europe
- Latin America
- North America

## Section B: Strategic Direction and Priorities

### *Responding to developments relating to reporting and assurance of sustainability information*

1. What level of importance do you believe the IESBA should place on dedicating strategic focus to responding through standard-setting action to the developments in sustainability reporting and assurance in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

1. BDO believes that standard-setting action relating to the developments in sustainability reporting and assurance should be a key priority for the IESBA.
2. Sustainability reporting is now, or soon will be, required in all corners of the world. This is going to result in a whole new world of reporting and assurance related services which firms will be asked to provide, either as part of or separately from the audit of the financial statement.
3. The IESBA Code is currently drafted with a focus on ethics and independence as they relate predominantly to financial reporting. Given the breadth and depth of sustainability reporting, BDO believes a stand back look will be beneficial in assessing whether the IESBA Code remains fit for purpose to cover the myriad of new circumstances and situations which professional accountants and auditors are going to be faced with in dealing with new and expanded reporting obligations.
4. BDO therefore encourages the IESBA to identify the key areas of the IESBA Code that may need to be revised and/or additional guidance provided to ensure the IESBA Code remains fit-for-purpose in establishing the standard of behaviour expected of a professional accountant, whether in business or public practice. The scope of this project must include the International Independence Standards (IIS) because independence will be required as much in the non-financial reporting space as it has been historically in the financial reporting space.
5. Having said that, BDO is pleased to see that the IESBA has committed to readying the IESBA Code in support of sustainability reporting and assurance, where the importance of co-ordinating this work closely with the IAASB and ISSB is recognised <sup>2</sup>.
6. BDO believes that a global ethical standard guiding sustainability reporting will reinforce comparability and reliability of reporting and will result in more transparency for the market. This will strengthen corporate governance and provide higher investor and public confidence.
7. BDO believes that there is an urgent need for guidance on how to apply the IIS as it relates to sustainability services as the demand for these services are increasing, thus exposing the profession if the independence standards are not consistently applied.

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<sup>2</sup> [IESBA Commits to Ready Global Ethics and Independence Standards Timely in Support of Sustainability Reporting and Assurance | IFAC \(ethicsboard.org\)](#)

## *Involvement of Other Assurance Service Providers*

2. Do you believe the IESBA should explore the concept of expanding the scope of the Code to cover assurance service providers other than PAPPs? What preconditions would need to be in place and what potential challenges or drawbacks do you foresee if the Code's provisions were scoped to the nature of the assurance services provided as opposed to who is providing the assurance services?

### *Expanding the scope of the Code*

8. BDO believes that the IESBA should explore the concept of expanding the scope of the IESBA Code to cover assurance service providers other than professional accountants in public practice (PAPPs).
9. In these exploratory activities, the IESBA should investigate what authority is required to bring other professional under their umbrella, whether this will be possible and how other service providers will be bound to the requirements of the IESBA Code.
10. BDO believes that there could already be a perception/assumption by the public that key elements of the IESBA Code apply to these other assurance providers. By expanding the scope of the IESBA Code, the public interest would be protected.
11. BDO believes that it would be impactful to not only expand the scope as it relates to sustainability services, but to all assurance services provided. The IESBA Code is currently scoped for professional accountants and not all individuals providing assurance services. BDO believes expanding the scope of the IESBA Code will be assisted if the IESBA Code's provisions could be scoped to the nature of the assurance services provided as opposed to who is providing the assurance services.
12. Uniform adoption of the IESBA Code by all relevant parties in the sustainability reporting ecosystem will provide an opportunity to aid harmonizing the quality of assurance services and improve the competitiveness of these services.

### *Preconditions*

13. A possible precondition to be in place is a professional body or regulator in a position to prescribe and monitor compliance with the IESBA Code.
14. It will be critical to identify all relevant parties, such as relevant service organization associations, regulators and standard setters to appropriately engage these parties and coordinating broadening the scope of the IESBA Code. These engagements should result in consensus amongst all stakeholders being reached to achieve consistent application of the IESBA Code.
15. The scope of the IESBA Code will have to be carefully defined, for instance the consideration of whether it will apply to all professional services delivered by a provider who is involved in sustainability engagements or only to specific sustainability related engagements, such as assurance related services.
16. Another consideration would be whether the IESBA Code would apply to the individual delivering the service only or would it extend to the employer to whom they report.
17. The nature of services to which the IESBA Code would apply will need to be clearly defined to ensure consistent application of the IESBA Code. The nature of sustainability services is broad, dependent on numerous factors and not uniform in nature. Flexibility for change

in scope of services in future-proofing the IESBA Code is another key factor for consideration.

18. If a project is approved to expand the scope of the IESBA Code, first time adopters will need assistance with the initial application of the IESBA Code and some transitioning provisions will need to be considered. Professional bodies and regulators overseeing these individuals would also need to be educated and monitoring processes and mechanisms ought to be designed and implemented to ensure enforcement of the IESBA Code.

#### *Potential challenges or drawbacks*

19. Developing global ethical standards that are flexible enough to cover a broad range of services, yet unambiguous to ensure consistency might prove to be difficult.
20. It could be a challenge to reach out to all providers of assurance services and manage conflicts to reach consensus on contentious matters.
21. It could be a challenge to identify appropriate bodies to regulate and monitor compliance with these standards, especially in areas where these services providers are not currently regulated.
22. The broadening of the scope of the IESBA Code may result in increased costs, in the form of increased professional membership fees, regulatory and monitoring fees and training costs.

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

23. BDO believes that ethical guidance for individuals preparing sustainability reports from a management's perspective, is critical to achieving high-quality, globally consistent sustainability reports.

#### *Raising the bar of ethical behavior for professional accountants in business*

4. Beyond sustainability reporting which is covered under the first strategic focus area above, do you believe the IESBA should dedicate strategic focus on further raising the bar of ethical behavior for PAIBs in its next strategy period (2024-2027)? Please be as specific as possible in terms of specific trends, developments or issues and explain your reasoning.

24. BDO believes that the IESBA Code currently provides sufficient guidance to PAIBs. We, however, question whether PAIBs understand the authority of the IESBA Code within their organisation or have sufficient knowledge of the provisions of the IESBA Code and how it applies to their roles within their organisation.
25. BDO believes that Public Accountancy Organisations' (PAOs) responsibility regarding the monitoring and disciplining of PAIBs should be emphasised through the publication of non-authoritative material.

26. BDO suggests that the IESBA prioritise the development of application guidance documents for PAIBs, and to consider developing training on the application of the IESBA Code in general.
27. The IESBA Code positions all professional accountants as equal in terms of their role in protecting the public interest, thus creating an expectation by the public. PAIBs and PAPPs have equal responsibility to protect public interest as part of the financial ecosystem. BDO believes that in practice the PAIB's might not consistently regard themselves having the same responsibilities as the PAPPs regarding the protection of the public's interest.
28. PAIBs play important roles within organizations, to develop business cases, manage performance, implement reporting arrangements and systems, and assess and assist in the development of governance and risk management arrangements and strong internal controls thus their ethical standards are critical in safeguarding the public's interest. The public relying on PAPPs to ensure quality of reporting is creating an expectation gap.
29. BDO encourages the IESBA to action projects that reduce the disparity between the ethical expectations of PAPPs and PAIBs, specifically focused on the role of PAIBs in protecting the public interest.
30. BDO believes that the provisions in the IESBA Code regarding the perceived conflict in the PAIB's role in being a loyal employee versus their responsibility in protecting the public interest are clear. A possible cause of this perceived conflict is that the employing organisation does not understand that there is a public interest element to the duties of the PAIB. Training and awareness amongst employing organisations and PAIBs of the public interest of the PAIB duties, as well as how PAIBs ought to prioritise their loyalty towards their employer versus serving the public interest will be beneficial in addressing this perceived conflict.
31. BDO suggests that the ethical leadership responsibility of PAIBs as addressed through the Role and Mindset provisions in the Code, should be emphasised through detailed guidance by IESBA in the form of non-authoritative material. This could include more ethics guidance/ directives for PAIBs in directorship roles.

*Strengthening independence standards for audit engagements*

5. Do you believe the IESBA should continue to dedicate strategic focus on strengthening the IIS for audit engagements in its next strategy period (2024-2027)? If so, what specific developments or issues do you believe the IESBA should focus on beyond the matters outlined above and in Section C? Please be as specific as possible and explain your reasoning.

*Continue strategic focus on strengthening the IIS for audit engagements*

32. BDO is of the view that the current IIS provisions contained in the IESBA Code are sufficient to address current independence challenges.
33. BDO believes that the IESBA should dedicate strategic focus on ensuring consistent understanding and application of the IIS. Priority focus areas for these initiatives should be on the recent amendments relating to NAS.
34. The IESBA Code focuses on outlining prohibitions. It will be useful to understand the baseline of when services are considered permissible to enable consistent application of

the prohibitions. In this regard, BDO believes that the following initiatives will have a positive contribution to consistent application of the IESBA Code:

- a. Examples to illustrate the application of the two prong-test contained in paragraph R600.14 of the final NAS pronouncement. It will be most useful to include examples of services that:
    - i. Meet (a) and (b) of the two-prong test
    - ii. Meet (a) and not (b) of the two-prong test
    - iii. Meet (b) and not (a) of the two-prong test
  - b. Examples of advice and recommendation that a firm or network firm is permitted to provide under R600.17 of the final NAS pronouncement
  - c. A list of permissible NAS as it relates to PIEs
  - d. A list of permissible NAS as it relates to non-PIEs
35. Paragraph R600.17 of the final NAS pronouncement contains an exception to providing advice and recommendation to a PIE audit client. In addition to examples of advice and recommendation intended to be permitted as requested in paragraph 34 of this response, it will be useful for the IESBA to include a definition of advice and recommendation to ensure consistent application of the exception.

*Other issues that the IESBA should focus on*

36. Cryptocurrency is an emerging issue that firms are currently faced with. Dealing in/with cryptocurrency requires ethical considerations to be front of mind. Furthermore, the independence considerations relating to cryptocurrency and which provisions of the IIS apply when assessing threats relating to firms holding cryptocurrency in an audit client are an area where guidance from the IESBA will be beneficial.
37. BDO believes that the IESBA should consider whether standard-setting activities are needed to address this or whether non-authoritative material illustrating how the current principles contained in IESBA Code apply to cryptocurrency will provide sufficient clarity.

*Promoting timely adoption and effective implementation of the Code*

6. Do you believe the IESBA should devote strategic focus on promoting timely adoption and effective implementation of the Code in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

38. BDO believes that the IESBA should devote strategic focus on standard-setting activities, IFAC should focus on promoting timely adoption of the IESBA Code and that local regulatory bodies should focus on effective implementation of the IESBA Code.
39. BDO is of the view that a post-implementation review (PIR) provides insight into possible future amendments and highlight areas where clarity is required in terms of practical application of the IESBA Code.
40. BDO supports the PIR that the IESBA has performed or plans to perform in the 2019/2023 workplan and encourages the IESBA to continue performing these into 2024 and beyond.

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

41. No additional matters noted.

#### *Other Key Environmental Trends or Developments*

8. Are there key environmental trends or developments, beyond those already noted above, you believe the IESBA should focus on in its next strategy period (2024-2027)? Please be as specific as possible and explain your reasoning.

42. No additional matters noted.

#### **Section C: Possible Future Standards-Related Projects or Initiatives**

##### *Independence of External Experts*

Under the Code's and the IAASB's definitions of "engagement team," an auditor's external expert is not a member of the engagement team for an audit or other assurance engagement. As such, they are not scoped in for the purposes of the IIS. They are, however, subject to objectivity requirements under ISA 620 in the context of an audit of financial statements.

A potential project on this topic would consider whether external experts used on audit and other assurance the expected increase in involvement of external experts under ISA 540 (Revised) and sustainability assurance standards. This matter arose during the IESBA's and IESBA Consultative Advisory Group's (CAG) discussions on the Engagement Team - Group Audits Independence project. Such a project would require coordination with the IAASB.

9. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

43. BDO rates this strategic priority as 2.

44. ISA 620, *Using the Work of an Auditor's Expert*<sup>3</sup> addresses the auditor's responsibility relating to the work of an external expert in obtaining sufficient appropriate audit evidence, including objectivity.

45. ISA 540 (Revised) was effective for audits of financial statements for periods beginning on or after 15 December 2019 and it is therefore expected that the increase in the use of external experts has already occurred.

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<sup>3</sup> ISA 620, paragraph 9, requires that in evaluating the objectivity of an external expert, the auditor makes inquiries about interests and relationships that may create a threat to that expert's objectivity.



46. [The International Forum of Independent Audit Regulators Survey of Findings 2021](#) does not indicate independence of external experts as a major area of concern. This is therefore not considered a high priority for BDO.

#### *Audit Firm - Audit Client Relationship*

A potential project on this topic would therefore consider whether the Code should address the inherent threats arising from the client relationship more broadly. It may also address a related matter which is whether it continues to remain appropriate for the Code to use the term “audit client” as opposed to the “audited entity” or “entity subject to audit.” This recognizes that the ultimate beneficial client is not the entity itself but the entity’s owners or shareholders.

10. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

47. BDO rates this strategic priority as 2.

48. BDO believes that IESBA should explore whether it continues to remain appropriate for the IESBA Code to use the term "audit client" as opposed to the "audited entity" or "entity subject to audit" as this recognizes that the ultimate beneficial client is not the entity itself but the entity's owners or shareholders.

#### *Business Relationships*

The Code does not define or describe the term "business relationship." Whilst the concept of "close business relationship" in Section 520 focuses on a "mutuality of interests" such as joint ventures and combining services or products with those of an audit client, there is a view that "business relationship" is a broader concept, i.e., consisting of any commercial arrangement.

A potential project on this topic would therefore consider revisiting Section 520 more comprehensively to deal with threats to independence from a broader business relationship context. This matter was identified as part of the current Technology project but is deemed to be outside the scope of that project.

11. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

49. BDO rates this strategic priority as 4.

50. BDO believes that the inclusion of a definition for the term “business relationship” in the IESBA Code should be a priority for the IESBA due to the growing number of activities involving the auditor or auditing company with different business relationships and the limited guidance and other resources available on this topic.

51. In addition to including a definition for the term “business relationship”, BDO suggests that the IESBA provide more guidance and clarity on this matter through the issuance of non-authoritative guidance such as FAQ’s and examples.

### *Definition of Audit Client for PIEs*

As part of the PIE project, the IESBA agreed to replace the reference to listed entity in extant paragraph R400.20 with the new term "publicly traded entity." As part of its deliberations, the IESBA also considered whether to replace the reference to listed entity in paragraph R400.20 with PIE, thereby enlarging the scope of the related entities included with the audit client when it is a PIE. However, the IESBA agreed that addressing the relevant issues such as the corporate structures of private equity complexes and sovereign wealth funds as well as the flow of information within those structures were beyond the scope of the PIE project.

A potential work stream on this topic would undertake further research to gain a better understanding of the ramifications of extending the whole universe of related entities for listed entities in extant paragraph R400.20 to apply to all PIE audit clients.

12. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

52. BDO rates this strategic priority as 2.

53. BDO believes that there should be a consistent approach for all PIEs in that the definition of related entities to be covered by the provisions should be the same for all types of PIEs. This is, however not considered a high-priority project.

### *Matters Arising from Quality Management (QM)-Related Conforming Amendments to the Code*

There were a number of substantive matters of alignment that arose during the project to develop the limited conforming amendments to the Code as a result of the finalization of the IAASB's QM projects. These matters were beyond the scope of the conforming amendments project. This limited scope project, which was finalized in December 2021, focused on the relevant provisions of the Code that refer to ISQM 13 or ISQM 2,4 or terms and concepts used or defined in those two QM standards.

The matters raised include:

- Whether networks can be defined by common requirements or services as opposed to common policies and procedures.
- Whether references to network firm in the Code, including in the definition of "audit team," should be extended to include "the network," given that ISQM 1 contemplates that there is the network, other firms in the network, and other structures or organizations within the network.

13. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

54. BDO believes that the International Standards on Quality Management (ISQM) and the IESBA Code should be aligned and to the extent that they are not, the IESBA should undertake a project on this.

55. Having said that, BDO rates this strategic priority as 2.

### *Familiarity Threat in Relation to Part 2 of the Code*

During the Long Association project, it was noted that the extant definition of "familiarity threat" contains a reference to "employing organization." However, the Code has only a few examples of familiarity threats with respect to PAIBs in the context of their employing organizations.

Currently, extant paragraph 200.6 A1(d) provides two general examples of familiarity threats for a PAIB when undertaking a professional activity; and paragraph 250.11 A3 provides one example of a familiarity threat that might be created when an inducement is being offered or accepted even if the PAIB has concluded there is no actual or perceived intent to improperly influence behavior.

A potential work stream on this topic would consider whether there is a need to provide additional guidance in the Code or in non-authoritative material regarding how PAIBs should address familiarity threats in the context of their work for employing organizations.

14. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

56. BDO rates this strategic priority as 3.

57. PAIB have a key role to play in the financial reporting ecosystem in protecting the public interest. BDO believes that non-authoritative material regarding how PAIBs should address familiarity threats in the context of their work for employing organizations will complement the potential area of strategic focus to raise the ethical bar for PAIBs.

### *Professional Appointments*

In the context of a change in professional appointment, paragraph R320.6 of the Code requires a proposed PA to take other reasonable steps to obtain information about any possible threats if the PA is unable to communicate with the existing or predecessor accountant. Paragraph 320.5 A1 provides that a proposed PA will usually need the client's permission to initiate discussions with the existing or predecessor accountant.

Paragraph R320.8 deals particularly with changes in audit or review appointments. It provides that if a client fails or refuses to grant the existing or predecessor accountant permission to discuss the client's affairs with the proposed accountant, the existing or predecessor accountant shall disclose this fact to the proposed accountant, who shall carefully consider such failure or refusal when determining whether to accept the appointment.

A potential project on this topic would consider whether the Code should require a proposed PA to decline an appointment if the client fails or refuses to give permission to the existing or predecessor PA to communicate with the proposed PA, unless there are certain exceptional circumstances.

15. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

58. BDO rates this strategic priority as 2.

59. BDO believes that it will be useful for the IESBA Code to provide guidance on instances where clients refuse permission for the auditor to engage with the new auditor but questions whether it is appropriate to introduce a requirement for the firm to decline an appointment in this situation.
60. BDO believes that it is more appropriate for local jurisdictions to use guidelines developed by the IESBA in deciding whether local legislation should require the firm to decline an appointment where clients refuse permission for the auditor to engage with the new auditor.

### *Breaches of the Code*

Extant paragraphs R400.80 to R400.89 and R900.50 to R900.55 of the Code address a breach of a requirement in Parts 4A and 4B, respectively. These provisions require a firm to take certain actions upon concluding that a breach has occurred, such as addressing the consequences of the breach, determining whether to end the audit or assurance engagement, and communicating with those charged with governance. These provisions also provide guidance on matters such as actions a firm might consider to address a breach satisfactorily.

Extant paragraphs R100.8 - 100.8 A1 currently provide a requirement and application guidance to address a breach of any other provisions of the Code. A potential project on this topic would consider other matters some stakeholders have raised, such as:

- In addition to requiring a PA to address the consequences of the breach and determine whether to report it to the relevant parties (paragraph R100.8), whether the Code should address actions to stop the activity that caused the breach.
- Whether there should be any optionality in reporting a breach under paragraph R100.8 (b).
- Whether the conceptual framework in Section 120 should specifically address the disclosure required when a breach occurs and when the professional accountant is unable to end a service.

16. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

61. BDO rates this strategic priority as 4.

62. BDO believes that the professional accountant's response to a breach of the fundamental principles should be more clearly defined, particularly as it relates to disclosure requirements when the breaches occur and steps available when the professional accountant is unable to end a service.

### *Definitions and Descriptions of Terms*

There are certain differences between the definitions of some terms in the Code and the definitions of the same terms in the IAASB standards. These terms include: financial statements; firm; independence; review engagement; and special purpose financial statements.

In addition, during the Structure of the Code project, the IESBA received a number of suggestions from respondents to reconsider how certain terms are currently defined in the Code, including:

- Audit team - Whether the definition of "audit team" should be broadened to include individuals within the firm who may be in a position to influence the conduct or

outcome of an audit by removing references to individuals in a position to ‘directly influence’ the outcome of an engagement. It was argued that such a broadening of the term would better reflect the complexity of organization and influence within audit firms. There was also a view that the change would address the risk that an ability to influence is seen purely as a structural consideration (related to the position of an individual in a firm), instead of driving the assessment through a consideration that captures all those who have the ability to influence and are relevant to the engagement.

- Employee - Whether the term “employee” should include individuals who may act in the capacity of an employee, such as a contractor of an audit client, instead of only covering actual employees of an audit client.
- Engagement Period - Whether it remains appropriate to limit the concept of “engagement period” to the date the audit report is issued as the auditor has further responsibilities under auditing standards, such as addressing the effect on the opinion of matters that come to the auditors’ attention after the conclusion of the audit.
- Firm - Whether the term “firm” is too narrowly defined and whether a firm could have non-member employees, as well as clarifying the responsibility of PAs for employees other than PAs.
- Network Firm - Whether the concept of a “network firm” should place more focus on the exercise of judgment instead of being circumscribed by a list of examples of situations that might indicate the existence of a network. There is also a view that borders between associations and networks are increasingly diffuse, and there is therefore a need to consider any potential Code implications that might impact the definition of a network firm. It has also been noted that while the definition of “network firm” is sufficiently broad in the Code, the definition of “firm” is potentially narrow in its references to structures known to exist today and that this might become limiting for the future.
- Professional Accountant - Whether the definition of “professional accountant” should include retired or inactive professional PAs.

The IESBA’s Applicability project addressed the applicability of Part 2 of the Code to PAPPs. As part of this project, there were suggestions as to whether the definitions of a PAPP and a PAIB should be revised. The Code defines a PAPP to be a PA, irrespective of functional classification, in a firm that provides professional services. It has been brought to the IESBA’s attention that there is no clear limitation in the definition of a PAPP to those who actually provide professional services. The extant definition, however, appears to include any PA in a firm that provides professional services. This could be interpreted to include PAs in roles other than providing professional services, such as in finance or IT.

Conversely, the Code defines a PAIB to include any PA employed or engaged in a variety of areas including service. If it is intended that a firm providing professional services is in a “service” industry, then prima facie any PA working in that service organization, including those providing professional services, is also a PAIB.

17. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

63. BDO rates this strategic priority as 3.

64. As indicated in paragraphs 35 and 51, in addition to the terms listed above, BDO recommends that the IESBA consider defining:
  - a. Business relationships
  - b. Advice and recommendations

*Non-Authoritative Material (NAM)*

Potential work streams would consider developing NAM in relation to the following topics: Several respondents to the Alignment of Part 4B of the Code with ISAE 3000 (Revised) Exposure Draft suggested that users of the Code would benefit from more practical examples of how Part 4B is to be applied, such as:

- Graphical illustrations of the different independence requirements as between a direct and an attestation engagement, in particular where more than one responsible party or party responsible for the subject matter information is involved.
- Practical guidance on determining the nature of the data that represents the underlying subject matter of the assurance engagement
- Practical guidance or case studies on identifying the parties from which independence is required, particularly in new and emerging areas that will assist practitioners to better evaluate and comply with the independence obligations.

In finalizing the revisions to Part 4B, the IESBA also agreed that non-authoritative guidance material to illustrate the application of Part 4B in different situations according to the various parties involved and by type of assurance engagement should be developed in due course.

#### *Relationship Between the Concepts of "Inquiring Mind" and "Professional Skepticism"*

As part of the Role and Mindset project, the IESBA introduced the concept of "having an inquiring mind" as a new element of applying the conceptual framework in the Code. It also provided guidance on what it means to have an inquiring mind. In considering the relationship between having an inquiring mind and exercising professional skepticism in the context of an audit or other assurance engagement, the IESBA made clear that, in addition to having an inquiring mind (which is required for all professional activities), PAs undertaking engagements to which auditing, review and other assurance standards apply are also required to exercise professional skepticism, which includes a critical assessment of evidence. The IESBA also concluded that further explanation of the relationship and differences between these two concepts should be addressed through NAM rather than in the Code.

#### *Types of Biases*

As part of the Role and Mindset project, the IESBA also introduced new application material in the Code to illustrate eight common forms of bias that a PA might encounter, such as availability bias, automation bias, confirmation bias and groupthink. Given the principles-based nature of the Code, there was only a brief description of each type of bias. There was a suggestion from some respondents to the Exposure Draft as well as from the IESBA discussions that the IESBA should consider developing NAM that provides expanded explanation of those examples of bias as well as other types of biases that may also be relevant to the exercise of professional judgment. There would also be consideration of exploring through NAM how biases affect a PA's professional judgment and the application of the conceptual framework.

18. How would you rate this topic as a strategic priority on a scale of 1 - 5? If you rate this topic as either 4 or 5 (i.e., high priority), please provide your reasons including any specific areas of focus as well as other relevant information.

65. BDO rates this strategic priority as 4.

66. Illustrative examples of different situations add value, add understanding and ultimately result in more consistent application of the requirements.

67. BDO agrees that the scope of the two concepts *the Concepts of "Inquiring Mind" and "Professional Skepticism"* should be clarified through non-authoritative material rather than in the IESBA Code.

19. Are there specific ethics or independence-related topics not otherwise covered in this Section or this survey that you believe should be given a high priority by the IESBA? If so, please explain and be as specific as possible.

68. None noted.

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We also believe the IESBA should allow for some flexibility in the Work Plan for unforeseen issues that, if addressed on a timely basis, would benefit stakeholders more than some of the other planned projects. We support the overall vision and objectives of the proposed strategy and work program and appreciate the opportunity to provide input into the IESBA.

We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Chris Smith  
Global Head of Auditing and Accounting