

## IESBA's Sustainability Initiative, Technology, and Recent Developments

SENIOR OFFICIALS' WORKSHOP:  
PULSAR, REPARIS for SMEs, STAREP  
November 29, 2022

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Technology Experts Group Chair

## Session Overview

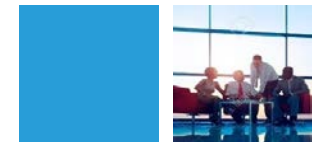
- Overview of the IESBA Code
- Sustainability
- Technology
- Update on other projects

## Overview of the IESBA Code

## International Ethics Standards Board for Accountants

### Independent standard setting board

- Develops ethics and independence standards for professional accountants worldwide
- Supports adoption and implementation of the IESBA Code
- Fosters international debate on ethics issues faced by accountants



## IESBA Composition

- Independent chair and 17 volunteer members → 18 members
- IESBA Members approved by the Public Interest Oversight Board
- No more than 9 practitioners, no fewer than 3 public members



## The Ethical Imperative

- Ethics is the bedrock of the accounting profession
- Trust and ethics are especially important during times of transformative change
- IESBA Code provides a strong, principles-based foundation, but is not static



## Parts and Sections in the IESBA Code

**PART 1:**  
Complying with the Code, Fundamental Principles, and Conceptual Framework  
(All Professional Accountants - Sections 100 - 199)

**PART 2:**  
Professional Accountants in Business  
(Sections 200 - 299)

**PART 3:**  
Professional Accountants in Public Practice (Sections 300 - 399)

**PART 4:**  
4A Independence for Audit and Review Engagements (400 - 899)  
4B Independence for Assurance Engagements other than Audit and Review Engagements (900 - 999)

**GLOSSARY:** All Professional Accountants

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## The Conceptual Framework and Fundamental Principles

### The Conceptual Framework



### The Five Fundamental Principles

- Integrity
  - Objectivity
  - Professional Competence and Due Care
  - Confidentiality
  - Professional Behavior
- Independence**

# Sustainability

## Roles of PAs in Sustainability



## Sustainability – Key Area of Focus

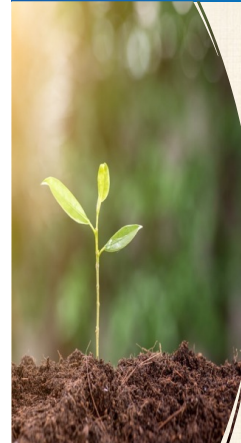
- Strong support for strategic focus on sustainability reporting and assurance
- Strong support to explore expanding scope of IESBA Code to cover *all* sustainability assurance providers
- Importance of collaboration with IAASB and ISSB
- Need for comprehensive infrastructure



## Sustainability – Key Area of Focus

### The critical role of ethics for trust and confidence

- Increasing stakeholder calls for ethical conduct in sustainability reporting and assurance
- Same high standards of reporting, ethics and independence, and technical capability need to apply *regardless* of who does the work
  - ❑ “Greenwashing” is a significant concern
  - ❑ Importance of practitioner independence for trustworthy assurance



## Recent Key Developments



## Matters Relating to Sustainability Reporting



## Matters Relating to Sustainability Assurance and Independence

Heightened public interest, so should be subject to the same ethics/ independence standards as audits of financial information

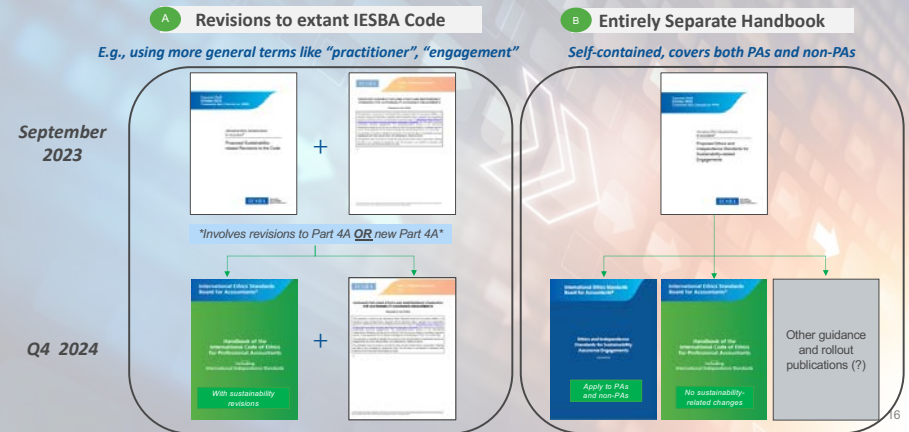
Professionals other than PAs are involved in providing assurance

Call for profession-agnostic standards

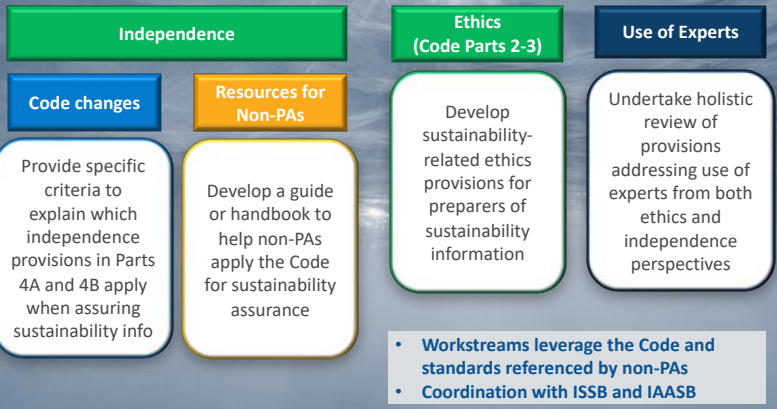
Input is needed from sustainability assurance providers (especially those who are not PAs)

IESBA Code/Independence Standards to remain aligned to IAASB sustainability assurance standards

## Consideration of Pathways



## Closely coordinated workstreams

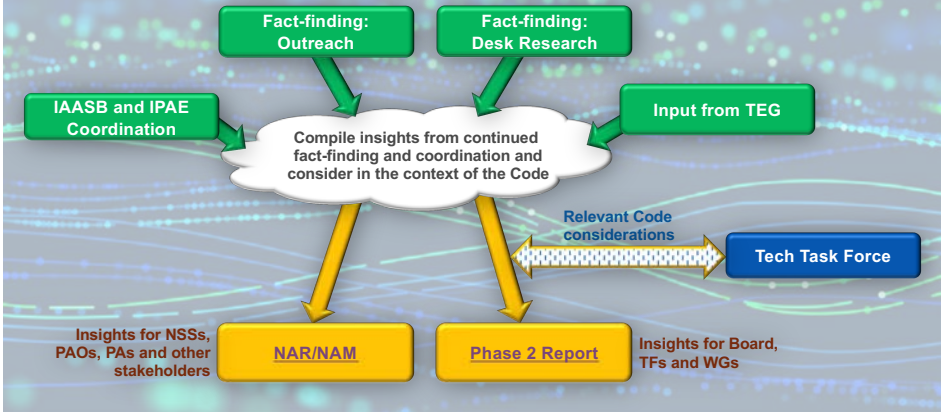


## Next steps



## Technology

## IESBA Technology Initiative



## TWG Phase 2 Final Report: Recommendations with Potential Code Implications

Recommendation	TWG Suggested Way Forward
Data Used for AI training	Addressed by proposed technology revisions to the Code
Transparency and Explainable AI	Addressed by proposed technology revisions to the Code
Data Governance, including Custody of Data	Include in SWP Consultation Paper
Communication with TCWG	Include in SWP Consultation Paper
Reliance on, or Use of, Experts	Include in SWP Consultation Paper
Pressure on PAs	Address in one or more current work streams
Business Relationships	Include in SWP Consultation Paper

## Non-authoritative Resources



- Multiple forces at play
- Driven by technology...but not just technology
- Ethical Leadership occurs at all levels, depending on sphere of influence

## Organizations face complex problems

- Societal expectations on sustainability, climate change, social justice
- Interdependencies between organizations and sociopolitical systems
- Ethics and strategy are intertwined to drive trust and reputation
- Opportunities for PAs as trusted advisors and ethical leaders

Complexity is not new, but it is amplified by technological disruption, increased interdependencies, and heightened societal expectations.

## “Complex” and “complicated”

### “Complex” and “complicated” are not the same, and the distinction matters

- Complex situations are dynamic, uncertain, and unpredictable
- Complex problems are “managed” rather than “solved”
- Approaching a complex problem the same way as a highly complicated problem will not produce an optimal result

The distinction is one of type, not of degree. “Complex” does not mean “more complicated”

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## Technology is a double-edged sword

- Technology magnifies both the good and the bad with respect to policies and processes
- Pursuit of innovation includes ethics challenges
- Awareness of – and attention to – challenges allow us to harness innovation through an ethics lens

Technology brings complexity and ethics challenges, but also provides tools to manage these situations if we ask the right questions.

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## Bias and mis/disinformation

### Identifying and mitigating bias and mis/disinformation are essential for effective decision-making

- “We see things not as they are, but as we are.” -*Anaïs Nin*
- Objectivity and integrity are challenged by unconscious bias (e.g., groupthink, confirmation bias, overconfidence/blind spot bias).
- It’s critical that we distinguish reliable information sources, and that we provide reliable information ourselves.

Humans are biased, therefore so are machines. The digital age is not helping.

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## Mindset matters

- Curiosity, having an inquiring mind, applying professional skepticism
- Awareness of own bias when applying professional judgment
- Moral courage/strength of character
- Adaptability, creativity, emotional intelligence, and big picture context are not easily replicated by machines

The mindset needed to be effective in the current environment embodies the skills and characteristics that will keep PAs relevant.

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## A competence paradigm shift is needed

- Technical expertise is necessary, but nowhere near sufficient
- Focus on enabling competencies (e.g., critical evaluation, communication, leadership, strategic thinking, ethical analysis, etc.)
- Recruiting, education and training need to adapt.

Professional skills, values, ethics and attitudes need to take centre stage.

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## Additional Thought Leadership Resources

Topic/Title of Thought leadership and Other Materials	Developed by or in Collaboration with	Status as of November 2022
<i>Applying the Code's Conceptual Framework to technology-related scenarios</i>		• <a href="#">Released September 2022</a>
<i>Technology-related considerations for Auditor Independence</i>		• In progress; being aligned with material in final Non-Assurance Services FAQs
<i>Exploring the IESBA Code: Technology-related instalments</i>		<ul style="list-style-type: none"> <li>• High-level awareness-raising publication: In progress</li> <li>• AI installment released <a href="#">March 2022</a>; Disruptive tech installment released Dec 2022</li> <li>• IFAC developing additional instalments following final technology-related provisions anticipated in December 2022</li> </ul>

- **Paper 1, *Complexity and the Professional Accountant: Practical Guidance for Ethical Decision-Making***
  - Highlights the increased complexity in today's world, exacerbated by technology.
  - Distinguishes complicated from complex circumstances.
  - Explains why it is important for PAs to recognize complexity.
  - Outlines practical guidance for PAs to manage complexity.
- **Paper 2, *Technology is a Double-Edged Sword***
  - Highlights the opportunities and challenges to the accountancy profession as a result of technology and incorporates two blockchain and AI systems examples to illustrate this.
  - Emphasizes the importance of data quality.
  - Explains why ethical leadership is important in developing, implementing, and using technology.
  - Outlines practical guidance for PAs as a way forward.
- **Paper 3, *Managing Bias and Mis/Disinformation***
  - Highlights the impact of bias and mis- and disinformation.
  - Explains why and how bias threatens a PA's obligation to comply with the fundamental principle of objectivity.
  - Emphasizes the guidance on bias and an inquiring mind within the Code.
- **Paper 4, *Mindset and Enabling Skills***
  - Highlights the roles and skills of the future reflecting the growing trend towards reliance on data and human-machine collaboration.
  - Highlights what such a shifting landscape means for the accounting profession.
  - Explains how and why mindset and enabling skills are important in this regard.
  - Outlines practical guidance for PAs as a way forward.



## Update on other IESBA projects





## Technology: Proposed Changes to the Code



## Technology: Proposed Changes to the Code

Draws attention to the competence, confidentiality, & leadership imperatives of the digital age

Considers the ethics threats from relying on the output of technology & complex circumstances

Addresses the ethics dimension of relying on or using the output of technology

Strengthens auditor independence for technology-related services & business relationships

Applies to assurance on non-financial information (e.g., ESG disclosures)

- Webinar explaining ED proposals available [here](#)
- Comment Letters received available [here](#)

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## Technology: Proposed Changes to the Code

### Significant Issues

- Suggestions to refine text
- Areas of clarification

- Professional Skills (113.1 A1)
- Confidentiality (114 & Glossary)
- Complex Circumstances (120.13 A1-A3)
- Use of Technology (200, 220, 300 & 320)
- Close Business Relationships (520.3 A2, 520.7 A1 & 600.6)
- Hosting (606.3 A1)

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## Tax Planning and Related Services



## Tax Planning and Related Services

Focus is on the “gray zone”



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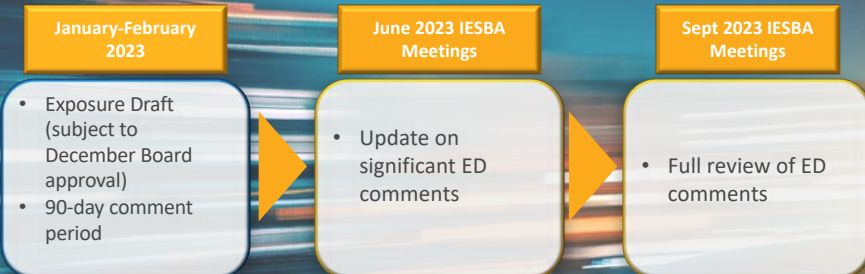
## Tax Planning and Related Services: Key Topics

Proposed new sections: Part 2 PAIB and Part 3 PAPP

Key Topics

- Scope of Services Addressed
- Description of Tax Planning and Related Services
- Role of the PA in Acting in the Public Interest
- Responsibilities of Clients, Management, and TCWG
- Responsibilities of All PAs
- Establishing a Credible Basis for Tax Planning Advice
- Stand-back Test

## Tax Planning and Related Services: Next steps



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Engagement Team Group Audit



## Engagement Team Group Audit Independence

### Objectives

Align the definition of "engagement team" in the Code with definition in proposed ISA 220 (Revised)

Revise the *Independence Standards* so that they are robust, comprehensive and clear when applied in a group audit context

**Close coordination with IAASB**

## Engagement Team Group Audit Independence

### Revised and new definitions



## Engagement Team Group Audit Independence

Sept 2022 IESBA Meetings

- Discussed significant ED comments
- Reviewed 'first read' draft

Nov/Dec 2022 IESBA Meetings

- 'Second read' and approval of the final text

December 15, 2023

- Proposed effective date in line with ISA 600 (Revised)

## Strategic Work Plan 2024 - 2027

## Strategy Survey



### Next SWP, 2024 - 2027

- Public consultation
- Coordinate closely with IAASB
- Take into account:
  - On-going projects
  - Pre-commitments
  - Ongoing Board discussions
  - MG recommendations

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## Potential Strategic Focus Areas

4 potential areas of focus that may help guide IESBA's direction and priorities

<b>Sustainability Reporting and Assurance</b>	Enhancing ethics & independence standards for sustainability reporting and assurance
<b>PAIBs</b>	Raising the ethical bar for professional accountants in business
<b>Auditor Independence</b>	Strengthening independence standards for audit engagements
<b>Adoption and Implementation</b>	Promoting timely adoption and effective implementation of IESBA Code

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## Highly Ranked Topics for Future Projects



Business relationships
Breaches of the Code
Definitions
Independence of external experts
Audit firm - client relationships
Non-authoritative materials and guidance

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## Strategic Work Plan: Next steps



# Questions/ Comments



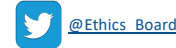
Or email me: [brian@friedrich.ca](mailto:brian@friedrich.ca)



[www.ethicsboard.org](http://www.ethicsboard.org)

**SUSTAINABILITY REPORTING AND ASSURANCE: A FOCUS ON ETHICS AND INDEPENDENCE**

Learn more at: [www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance](http://www.ethicsboard.org/focus-areas/sustainability-reporting-and-assurance)



## Appendix 1 – Overview of Parts and Sections

<p><b>Part 1</b> Complying with the Code, Fundamental Principles and Conceptual Framework</p> <p><b>Section 100</b> Complying with the Code</p> <p><b>Part 2</b> Professional Accountants in Business</p> <p><b>Section 200</b> Applying the Conceptual Framework <b>Section 210</b> Conflicts of Interest <b>Section 220</b> Preparation and Presentation of Information <b>Section 230</b> Acting with Sufficient Expertise <b>Section 240</b> Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making <b>Section 250</b> Inducements, including Gifts and Hospitality <b>Section 260</b> Responding to Non-compliance with Laws and Regulations <b>Section 270</b> Pressure to Breach the Fundamental Principles</p>	<p><b>Section 110</b> The Fundamental Principles</p> <p><b>Section 120</b> The Conceptual Framework</p> <p><b>Part 3</b> Professional Accountants in Public Practice</p> <p><b>Section 300</b> Applying the Conceptual Framework <b>Section 310</b> Conflicts of Interest <b>Section 320</b> Professional Appointments <b>Section 321</b> Second Opinions <b>Section 323</b> Objectivity of an Engagement Reviewer and Other Appropriate Reviewers</p>	<p><b>Section 130</b> Fees and Other Types of Remuneration <b>Section 140</b> Inducements, including Gifts and Hospitality <b>Section 150</b> Custody of Client Assets <b>Section 160</b> Responding to Non-compliance with Laws and Regulations</p>
<p><b>International Independence Standards (Parts 4A and 4B)</b></p>		
<p><b>Part 4A</b> Independence for Audit and Review Engagements</p> <p><b>Section 400</b> Applying the Conceptual Framework to Independence for Audit and Review Engagements <b>Section 410</b> Fees <b>Section 411</b> Compensation and Evaluation Policies <b>Section 420</b> Gifts and Hospitality <b>Section 430</b> Actual or Threatened Litigation <b>Section 510</b> Financial Interests <b>Section 511</b> Loans and Guarantees <b>Section 520</b> Business Relationships <b>Section 521</b> Family and Personal Relationships <b>Section 522</b> Recent Service with an Audit Client <b>Section 523</b> Serving as a Director or Officer of an Audit Client <b>Section 524</b> Employment with an Audit Client <b>Section 525</b> Temporary Personnel Assignments <b>Section 540</b> Long Association of Personnel Including Former Positions with an Audit Client <b>Section 600</b> Provision of Non-Assurance Services to an Audit Client <b>Section 800</b> Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagements)</p>	<p><b>Part 4B</b> Independence for Assurance Engagements other than Audit and Review Engagements</p> <p><b>Section 900</b> Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements <b>Section 905</b> Fees <b>Section 906</b> Gifts and Hospitality <b>Section 907</b> Actual or Threatened Litigation <b>Section 910</b> Financial Interests <b>Section 911</b> Loans and Guarantees <b>Section 920</b> Business Relationships <b>Section 921</b> Family and Personal Relationships <b>Section 922</b> Recent Service with an Assurance Client <b>Section 923</b> Serving as a Director or Officer of an Assurance Client <b>Section 924</b> Employment with an Assurance Client <b>Section 940</b> Long Association of Personnel with an Assurance Client <b>Section 950</b> Provision of Non-Assurance Services to Assurance Clients Other than Audit and Review Engagement Clients <b>Section 990</b> Reports that Include a Restriction on Use and Distribution (Assurance Engagements Other than Audit and Review Engagements)</p>	

The 2022 Edition of the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* (the Code) was issued in September 2022 and incorporates the following revisions that will become effective in December 2022:

- The revisions to the non-assurance services (NAS) and fee-related provisions of the Code.
- The revisions to address the objectivity of an engagement quality reviewer (EQR) and other appropriate reviewers.
- The quality management-related conforming amendments to the Code that were issued as a result of the finalization of the International Auditing and Assurance Standards Board's (IAASB) suite of quality management standards.

In addition, the 2022 edition of the Code contains the IESBA approved revised definition of a public interest entity that will become effective in December 2024.

[Click here](#) to access the Code, including the eCode and e-International Standards.



1. This document is prepared by the staff of the IESBA and illustrates the sections of the Code that were revised since the 2021 edition.  
 2. Includes the fee-related revisions to the Code.  
 3. Includes the fee-related revisions to the Code.  
 4. Includes the revision to address objectivity of an engagement quality reviewer and other appropriate reviewers.  
 5. Includes conforming amendments to the Code arising from the IAASB quality management project.