



# IESBA Strategy Survey

Response from ICAEW to the survey questions

## INTRODUCTION

1. ICAEW very much welcomes the publication of IESBA's Strategy Survey and is grateful for the opportunity to provide its views on the key environmental trends, developments or issues that IESBA should consider, as it begins the process of developing its next Strategy and Work Plan (SWP) for the period 2024 – 2027.
2. ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 157,000 chartered accountant members in over 147 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.
3. ICAEW's response to the individual survey questions is set out below.

## Section B-Strategic Direction and Priorities

Survey Question	Comment
<p><b>Q1.</b> <i>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)?</i></p>	<p>ICAEW considers the area of sustainability reporting and assurance to be extremely important and recommends that IESBA prioritize this area above introducing minor amendments to existing ethical standards.</p> <p>Substantial work needs to be done on ethical considerations concerning Professional Accountants in Business ("PAIB"). PAIBs are the preparers of reported information and are often involved in advising their boards on the consequences of business decisions around sustainability. They can face significant ethical dilemmas when looking what courses of action to recommend and how to report the demands of business profitability against "fair" reporting and accusations of "greenwashing". Indeed, in an ideal world, if the initial businesses decisions made by the PAIBs met all the UN sustainability goals, there would be little need to audit and report on what the business had done.</p> <p>Whilst the emphasis at present appears to be on reporting and assurance around climate change, and rightly so, the UN sustainability goals are significantly wider than this and reporting, and assurance of that reporting, is only the visible end product of the underlying business decisions. We would expect to see, over the short term, an expansion of interest in sustainability from reporting and assurance on the narrower issues to the wider arena including areas such as carbon reporting, pay and modern slavery. IESBA's focus will need to cover all these areas from the ethical considerations for PAIBs making business decisions, through to the ethic decisions in presentation and reporting.</p>

	<p>There may be the need therefore for broader ethical standards covering the all such areas.</p> <p>As regards sustainability reporting any ethical standards should take into account the reality that “sustainability reporting” involves considerably more judgement, estimation and uncertainty than purely financial reporting.</p> <p>Whilst primarily a role for IASB and ISSB, concerns over greenwashing, the lack of unification in terms of metrics, approach and reporting and the manifold reporting standards and frameworks available in themselves give rise to the ability for unethical manipulation of sustainability reporting.. Given the global focus on sustainability reporting by stakeholders, IESBA should ensure that it is involved with the development of reporting standards to the extent necessary to ensure they limit such opportunities for unethical behavior. One area in particular is the need to unify reporting and assurance standards to reduce complexity and reduce the likelihood that information provided in reports gives a false or misleading impressions .</p>
<p><b>Q2</b></p> <p><i>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?</i></p>	<p>ICAEW considers that some potential expansion of the application of the Code of Ethics may be worth exploring in principle. However, the practical challenge is likely to be the degree to which non-IFAC bodies would adopt (and adhere) to the Code.</p> <p>The issue of how to deal with non-compliance or purported compliance by such bodies would need careful consideration. Unlike IFAC accountancy bodies, “sustainability assurance organisations” might not have a clear disciplinary structure to disincentivise breaches of the Code. Implementation of such structures might require national legislation or regulation.</p> <p>Considerable care would also need to be taken to ensure that claims to a wider use of the Code by such organisations does not lead to the apparent “certification” of non-professional bodies or organisations or, through that, a diminishing in the public perception of the Code or its enforcement.</p>
<p><b>Q3.</b></p> <p><b><i>Are there other matters the IESBA should consider with regards to this strategic focus area?</i></b></p>	<p>ICAEW notes that in an emerging area such as this, care must be taken to ensure that any changes to the Code do not add significantly to expense, nor remove the ability to innovate.</p> <p>In the UK, increasing regulation and regulatory cost burden have led to some organisations opting out of non-statutory audits.</p> <p>ICAEW notes that TCFD requires ESG reporting for PIE and FS organisations (CSRD requires the same in Europe for all listed companies) to be within the scope of the financial statements or a separate associated document. Therefore, the same rules should apply to sustainability assurance as it currently does to audit and there should be no need to treat ESG and sustainability reporting (in its widest context e.g., GHG emissions, low and high pay etc) any differently than the core financial statements.</p>
<p><b>Q4</b></p> <p><b><i>Beyond sustainability reporting which is covered under the first strategic focus area above, do you believe the IESBA should dedicate</i></b></p>	<p>As trusted advisors, professional accountants should be encouraging the best behaviour of members for all companies.</p> <p>Such ethical principles must cover the perceived “trade- off” between profitability and ethical compliance and the responsibility of the PAIB to advise boards on ethical behaviour and conduct.</p>

<p><b><i>strategic focus on further raising the bar of ethical behaviour for PAIBs in its next strategy period (2024-2027)?</i></b></p>	<p>It is important that CFOs of, say, all PIEs (and ideally OEPIs) are equally subject to the Code, both for raising and maintaining standards and also to prevent integrity arbitrage.</p> <p>The current Code of Ethics does not sufficiently deal with the wider ethical areas on which CFOs in particular are now being called upon to advise. Specific examples, for example, would be the use of robotics to replace workforce; the citing of new operations in low pay regimes; the use of (legal) low tax areas; and the extent to which an organisation should continue to deal with businesses or countries which are themselves acting unethically.</p> <p>The wider use of AI also needs to be considered (and this applies to both PAIBs and PAPPs), in particular, where responsibility lies in the context of increasing use of autonomous systems with their own increasing agency.</p> <p>In defining ethical principles or making changes to the Code, ICAEW notes that it would be important to recognise and take into account the public's changing perception of what is now considered to be "ethical" behaviour by organisations. In particular, there is an increasing focus on the preservation and creation of non-financial forms of capital (a move away from the primacy of profit and shareholders).</p> <p>However, there is a risk that, were the bar to be raised too high (particularly as regards documentation of compliance or training), then PAIBs, once they have a sufficiently strong CV, might simply leave their professional bodies. As such, this might tend to lower the ethical standard compliance across business as a whole, rather than raise it. To that extent changes will need to be introduced progressively starting with non-mandatory guidance and raising the bar as any side effects are better understood.</p> <p>In addition, ICAEW suggests that there is scope to include more detailed material on issues such as "whistleblowing" or how PAIBs in smaller businesses, where they have no other internal assistance, may seek advice.</p>
<p><b>Q5.</b></p> <p><b><i>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?</i></b></p>	<p>Certainly in the UK, market changes are already forcing greater consideration of independence requirements.</p> <p>ICAEW would caution against creating further detailed rules in this area. ICAEW notes that "Auditor independence" should be a frame of mind. To a greater or lesser extent this is something which professional bodies should be enforcing.</p> <p>There is a danger that adding additional rules may increase audit costs, without necessarily increasing audit reliability. In turn, this may lead to companies opting out of audit, in those jurisdictions where this is allowed, and overall creating a reduction in the reliability of financial information.</p> <p>If further rules are required, then rigorous cost/benefit analysis needs to be applied with a stratified approach to implementation.</p>

<p><b>Q6.</b></p> <p><i>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)?</i></p>	<p>ICAEW agrees with this proposal. ICAEW considers that greater priority should be given to persuading more countries to adopt the current standards, rather than making minor changes to those standards. Global adoption would contribute to “levelling the playing field” and would be an immense benefit to world investment and world trade.</p>
<p><b>Q7.</b> <i>Are there specific operability issues or concerns with respect to the Code you believe the IESBA should be made aware of?</i></p>	<p>ICAEW has no further comments on this question other than those made above.</p>
<p><b>Q8.</b></p> <p><i>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)?</i></p>	<p>ICAEW has no further comments on this question.</p>

**SECTION C-Possible Future Standards-Related Projects or Initiatives**

**Topics to Be Rated on Scale of 1 (lowest) to 5 (highest)**

TOPIC	RATING	COMMENT
<p><b>Independence of External Experts</b></p>	<p><b>5</b></p>	<p>ICAEW considers that given the increasing focus on the non-financial descriptive elements of the annual report, it is most important that the veracity of this information should be brought up to the same standards as those covered directly by the audit report. In the UK, this is already a requirement in some areas. For example, public companies in the mining industry require certain information to be signed off by an independent qualified geologist. Greenwashing is a recognised threat to the accuracy of reports. Independent experts would go some way to helping resolve this issue.</p>
<p><b>Audit Firm – Audit Client Relationship</b></p>	<p><b>2</b></p>	
<p><b>Business Relationships</b></p>	<p><b>3</b></p>	<p>ICAEW considers that the focus should be on enforcing <b>principles</b> and encouraging good judgement, rather than on developing complicated and detailed prescriptive rules, which in fact provide more scope for avoidance.</p>
<p><b>Definition of Audit Client for PIEs</b></p>	<p><b>3</b></p>	

<b>Matters Arising from Quality Management (QM)-Related Conforming Amendments to the Code</b>	<b>2</b>	
<b>Familiarity Threat in Relation to Part 2 of the Code</b>	<b>4</b>	ICAEW notes that the guidance for members in business is very limited compared with guidance for those in public practice even though they face as many, if not more, front line ethical threats. Care should be taken however, to ensure that this is non-authoritative advisory material.
<b>Professional Appointments</b>	<b>2</b>	
<b>Breaches of the Code</b>	<b>4</b>	
<b>Definitions and Descriptions of Terms</b>	<b>5</b>  <b>1-3</b>	5 – as regards consistency of terms. It is both confusing to members in the profession and even more so to the general public when there is a lack of consistency in terms, and this should be addressed. Furthermore, procedures should be put into place between the constituent elements within IFAC to ensure that consistent terminology is always used going forward.”  1-3 as regards other proposals for redefining terms given in the bullet points. The need for such changes should be looked at separately as necessary and when there is specific justification for them. Small changes in terms can help clarify but they can also have a major impact with unexpected side-effects (such as including included retired or inactive professional PAs within scope.
<b><i>Types of Biases</i></b>	<b>1</b>	There is considerable academic and other material which PAs can refer to answer the issues posed here. The danger of IESBA producing material in its own right is that, no matter how non-authoritative it is said to be – professional bodies and, specifically, local Courts, may take it as evidence of best practice. Inevitably therefore it will become “mandatory” to introduce additional processes and costs within firms (and businesses) to ensure compliance.

## GENERAL

<p><b>Q9.</b></p> <p><b><i>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?</i></b></p>	<p>ICAEW considers that the impact of AI is very much a project which IESBA should continue in the background and should constantly monitor. This is particularly important given the rapid development of technology and functionality.</p> <p>Whilst the current changes to the Code of Ethics deal with short term issues, longer term issues such as the replacement of staff by robotics, the emergence of AI with moral agency, the responsibility for training and supervision of such technology, should all be considered in depth by IESBA, <i>before</i> they come pressing issues.</p> <p>Ethical behaviour is driven by culture, but the current Ethical Standards say little about culture within organisations, nor address how this can be improved.</p>
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