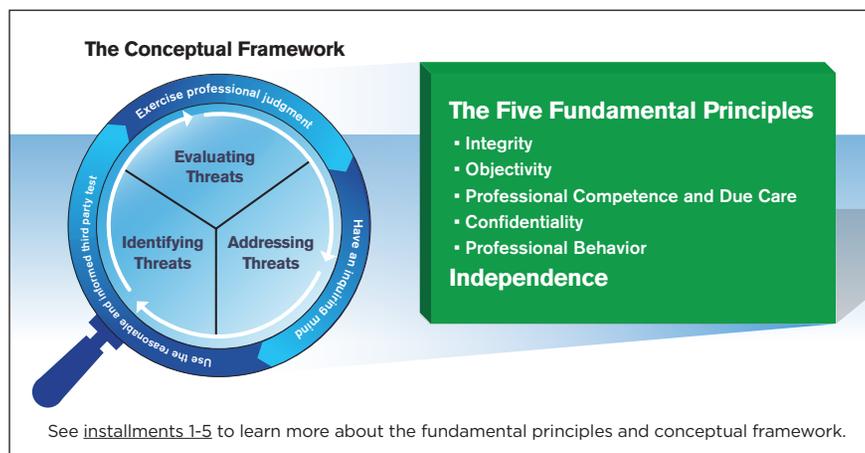


EXPLORING THE IESBA CODE

A Focus on Technology: Artificial Intelligence



Technology is changing the way that professional accountants (PAs) perform their work. While technological innovations like artificial intelligence (AI) can enhance the scope, efficiency, and effectiveness of this work, such innovations can also pose new challenges to how PAs continue to act in the public interest, as is required by the [IESBA Code](#) (“the Code”).

In this installment, we examine the application of the Code’s conceptual framework to address ethics and independence issues arising from the use of AI.

Consider the following AI scenario:

You are the financial controller at a company that has just introduced an expensive new AI-enabled system to screen potential new customers and determine appropriate credit limits. The CFO has sent out a company-wide email claiming that this new technology will revolutionize how your company evaluates potential customers and assures quality sales. This is a high-profile project for the CFO, who is expected to retire within the next fiscal year and who everyone expects will endorse you as their successor.

- You have been asked to implement the new AI-enabled system, as soon as possible. You do not yet sufficiently understand the assumptions and parameters underlying how the AI works, but the first batch of potential customers screened appears to overweight the likelihood of default and fraud risks of individuals from ethnic minority groups.
- Taking the time to investigate and evaluate unexpected findings will delay implementation and could call into question the CFO’s decision to purchase and implement this new system.

In this installment, we will consider our AI scenario and identify, evaluate and address possible threats to compliance with the five fundamental principles.

As the Financial Controller, you might be tempted to rationalize the following:

“Extensive testing was probably done by the technology developer, our company’s IT department, and the finance implementation team before it was deployed. Therefore, it is okay to rely on the results of the AI system.” However, by applying the conceptual framework and asking appropriate questions, you would identify at least two threats that require evaluation.

WHAT ARE THE THREATS?

Threats to compliance with the fundamental principles are categorized as:
Self-Interest | Self-Review | Advocacy | Familiarity | Intimidation

Identifying and Evaluating Threats – Key Questions to Ask

Recall from *Installation 2*, the questions that PAs are required to ask in relation to each category of threat. In this scenario these threats are:

SELF-INTEREST: What's in it for me and does this impact my decision making?

Does the fear of losing the opportunity to replace the retiring CFO influence you to accept the “black box” or potential bias the system appears to exhibit based on your preliminary findings? Are you hesitant to “raise problems;” be critical of the outputs of the AI system; or take actions to obtain sufficient expertise to understand the results of the AI system?

*The self-interest threat to integrity, objectivity, professional competence and due care, and professional behaviour is **not at an acceptable level** if you answer “yes” to any of these questions.*

INTIMIDATION: Do I feel threatened in any way with respect to performing my job in a diligent, professional, or objective way?

Are you hesitant to act objectively either out of fear that you will be perceived as not understanding the new technology or because of pressure from the CFO to get the new AI implemented as soon as possible? Did the CFO's company-wide email and instruction to get the new AI implemented make you feel pressure to just accept the results as they are and move on?

*The intimidation threat to integrity, objectivity, professional competence and due care, and professional behaviour is **not at an acceptable level** if you answer “yes” to any of these questions.*

Possible Actions to Address Threats

Recall from *Installation 4*, that if identified threats are not at an acceptable level, the PA must take steps to address them by either:

- **Eliminating the circumstance**, interest or relationship creating the threat(s).
- **Applying safeguards** to reduce the threat(s) to an acceptable level.
- **Declining or ending the specific professional activity** or engagement that gives rise to the threat(s).

In our scenario, the self-interest and intimidation threats cannot be eliminated by halting the AI system implementation (not a decision the Financial Controller can make alone). Although resigning or stepping down from the responsibility for implementing the new system would eliminate the threats by ending the professional activity, it is premature for these options and would not demonstrate the strength of character expected of a PA to challenge others when circumstances warrant. It would also not remove the reputational and financial threats to the company, and hence its stakeholders, of introducing a potentially flawed new credit scoring system.

- ▶ The Financial Controller should, however, apply appropriate safeguards to reduce the identified threats to an acceptable level. Such safeguards would likely focus on mitigating bias.

Mitigating Bias

Obtaining explanations from the technology developer or seeking advice from experts, consulting the opinions of other knowledgeable co-workers and receiving additional training on how to understand/use the AI are all actions you can take to mitigate automation bias. Although discussing your concerns with the CFO about the potential biases against ethnic minorities is not itself a safeguard, that discussion might help identify safeguards. An example of a safeguard could be operating the new and current credit scoring systems in parallel so that the results can be compared and the system modified, as necessary.

The fundamental principles guide the behavior of PAs, and help them uphold their responsibility to act in the public interest. The role and mindset expected of PAs include:

- **Having an inquiring mind.** For the Financial Controller, this might involve asking questions about how the AI system works, the nature of the activities it performs, and whether it is “fit for purpose (i.e., the system has been appropriately tested and evaluated for the purpose intended).
- **Being aware of the potential biases** that might adversely influence the exercise of professional judgment. For example, “automation bias” might increase the tendency to favor output generated from automated systems, even when contradictory information raises questions as to whether such outputs are reliable or fit for purpose. Learn more about various types of bias in *Installation 11*.