Emerging Issues and Outreach Committee (EIOC) Update

Vania Borgerth, EIOC Chair

IESBA Meeting
March 13-17, 2023
To update the Board on EIOC activities since September 2022;

To discuss the following:
(a) FTX Failure
(b) ChatGPT
(c) Fraud

To note jurisdictional updates
FTX FAILURE – HEADLINES

• Bankman-Fried was charged in December 2022 in an eight-count indictment. On February 23, an indictment was unsealed, adding new charges for a total of 12 counts, including conspiracy to operate an unlicensed money transmitting business, conspiracy to commit bank fraud, and securities fraud (CNN February 23, 2023)

• The fall of FTX has led to billions of dollars in losses for its investors and customers. The failure of Bahamas-based FTX, once valued at $32bn, has resulted in billions of dollars of potential losses for millions of investors, including retail investors, as well as creditors
FTX FAILURE
Actual or potential
Root causes
(Agenda Items 6C-6G)

• Failure of Corporate Controls
  • Compromised systems integrity and faulty regulatory oversight abroad (lack of independent review of transactions and appropriate mechanism to record spending approvals)
  • Misappropriation of customer assets
  • Competence of individuals responsible for producing the financial information
  • Competence of individuals responsible for auditing financial information of organizations involved in cryptocurrency trading
FTX FAILURE – Potential issues under the Code

Ethical Issues – PAIBs

- Compliance with the fundamental principles (FPs) of integrity, professional competence and due care, professional behavior
- Section 210 Conflicts of Interest
- Section 220 Preparation and presentation of information
- Section 230 Acting with sufficient expertise
- Section 270 Pressure to breach the FPs
FTX FAILURE - Potential issues under the Code

Ethical Issues – PAPPs

- Compliance with the fundamental principles (FPs) of integrity, objectivity, professional competence and due care, professional behavior
- Potential advocacy issues from auditor's conduct and actions
- Section 310 Conflicts of Interest
- Section 320 Professional Appointments
- Section 350 Custody of Client Assets
- Section 360 Responding to Non-compliance with Laws and Regulations (?)
Other matters: ASSURANCE OVER CRYPTO (Agenda Items 6-H and 6-I)

- “Proof of Reserves Report” issued by a firm related to crypto assets
- Agenda item 6-I was issued in early December though the firm subsequently withdrew the report and halted from any crypto-related services
  - References IAASB’s ISRS 4400 (Agreed-Upon Procedures Engagements)
  - Not subject to any independence standards and is based on procedures that are the responsibility of the client
  - No assurance or opinion on the existence of assets despite a claim of “proof”
  - No references to internal controls
• Do IESBA members have feedback on the potential ethical issues raised as a result of the alleged circumstances surrounding the FTX collapse?

• Do IESBA members have any comments on the matter of assurance over crypto assets?
ChatGPT (and Similar Generative AI)

- ChatGPT released in late Nov 2022
  - AI capable of producing writing as humans do
  - Growing exponentially, reaching 100 million active users by January 2023
  - Has been used to pass medical and law exams, code software, deliver sermons, and write love and apology letters
- Advantages include speed, efficiency, versatility, relatability, customization
ChatGPT (and Similar Generative AI)

- Potential ethics concerns or challenges include:
  - Bias and discrimination
  - Safety concerns (disturbing content, misinformation, etc.)
  - Intellectual property theft, copyright infringement, plagiarism
  - Privacy concerns and other NOCLAR issues
  - Potential lack of accountability

- To monitor developments closely through IESBA’s Technology Working Group

- IESBA Technology-related revisions to the Code principles-based and applicable to all technologies
Do IESBA Members have any comments on the potential ethical issues relating to the use of ChatGPT and similar Generative AI?
Dutch Regulator (AFM) focused on audit firms playing a bigger role in addressing fraud and fraud risks

- Paper also refers to the independence of the internal audit function.
- Root causes suggested by AFM:
  - Role and mindset of the auditor in fraud detection and application of professional skepticism
  - Internal culture at audit firms
  - IAASB is undertaking a current project to revise its fraud standard, ISA 240
FRAUD

Consideration of possible IESBA actions, if any, besides coordination with IAASB on the ISA 240 (Revised) project

- Review the current IESBA-NSS publication – *Navigating the Heightened Risks of Fraud and Other Illicit Activities During the COVID-19 Pandemic Including Considerations for Auditing Financial Statements (December 2020)*
  - Re-package into a more generic publication addressing fraud and include references to role and mindset provisions?
  - Consider also tone at the top; continuing professional development?
Do IESBA members have feedback on the recommendation to re-package the IESBA-NSS publication to address the matter on fraud?
Do IESBA Members have any questions or feedback on the jurisdictional updates (Agenda Item 6-B)?