

**IESBA**

International  
Ethics Standards  
Board for Accountants®

# Emerging Issues and Outreach Committee (EIOC) Update

**Vania Borgerth, EIOC Chair**

IESBA CAG Meeting  
March 6, 2023

# Agenda

- To update the Representatives on EIOC activities;
- To discuss the following:
  - (a) FTX Failure
  - (b) ChatGPT
  - (c) Fraud




# 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 D-2  
to D4)


- 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 D-7 and D-8)

- “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 issuing 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 Representatives have feedback on the potential ethical issues raised as a result of the alleged circumstances surrounding the

FTX collapse?

- Do Representatives 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, reliability, 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 Representatives have any comments on the potential ethical issues relating to the use of ChatGPT and similar Generative AI?



# FRAUD

(Agenda Items D-5 and D-6)

- 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 Representatives have any comments to address the matter on fraud?





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