Draft IESBA Staff Alert

The Ukraine Conflict: Key Ethics and Independence Considerations

This publication has been prepared by the Staff of the International Ethics Standards Board for Accountants (IESBA). It highlights a number of important ethics and independence considerations for professional accountants (PAs) in business (PAIBs) and professional accountants in public practice (PAPPs) under the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) as they undertake professional activities or provide professional services in circumstances that may be impacted by the Russia–Ukraine war.

This publication may also be of interest to national standard setters (NSS), those charged with governance (TCWG), investors, regulators and audit oversight bodies, preparers other than PAIBs, professional accountancy organizations (PAOs), and others with an interest or role in the work of PAIBs and PAPPs, including auditors and auditors' independence.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading this publication is not a substitute for reading the Code. The guidance in the publication is not meant to be exhaustive and reference to the Code should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

I. Introduction

1. Russia's military invasion of Ukraine in February 2022 has given rise to unprecedented challenges for businesses and organizations in the public, private and non-profit sectors worldwide, and caused substantial disruptions to economies, business operations and livelihoods around the globe. A large number of jurisdictions, including the US, the EU, the UK, Japan, Canada and Australia, have responded by imposing economic sanctions[1] on Russia, as have certain international organizations. A large number of multi-national companies and investors have also divested business or financial interests or otherwise curtailed business dealings with certain Russian entities, or announced plans to do so. Amid those repercussions and the potential for the conflict to widen beyond Ukraine, volatility and uncertainty have increased significantly in the financial markets.

2. The extent and duration of the conflict, and the continuing repercussions of Russia's military actions (including any retaliatory actions that may be taken by those targeted by sanctions) are unpredictable. Given the potential for the significant market disruptions and uncertainties to continue, this publication draws the attention of PAs and other stakeholders to key provisions of the Code that are especially important to enable PAs to comply with their ethical obligations under the Code and meet their responsibility to act in the public interest.

[1] For the latest sanctions and actions taken against Russia by countries, major companies and organizations, see Reuters' Tracking Sanctions Against Russia.

II. Key Considerations Applicable to All PAs

Ethical Implications of Sanctions

3. Since Russia's invasion of Ukraine, many jurisdictions have imposed wide-ranging economic sanctions on Russia and certain Russian entities and individuals. A number of jurisdictions have also imposed economic sanctions on Belarus for aiding or facilitating Russia's war efforts in Ukraine. Sanctions might also be imposed on other countries that provide military or economic support to Russia. Among other actions, the sanctions have frozen certain Russian assets and prohibited business dealings with specific Russian entities (including certain financial institutions), officials and oligarchs.

Understanding and Complying with Sanctions

4. The Code requires PAs to comply with the fundamental principle of professional competence and due care.[2] The Code also requires PAs to comply with the fundamental principle of professional behavior, which in turn requires PAs to comply with relevant laws and regulations.[3]

5. As the Russia-Ukraine war endures, the situation concerning sanctions remains fluid. New jurisdictions may join the list of other jurisdictions that have already imposed sanctions. In addition, some jurisdictions have expanded the scope of their sanctions or added new layers of sanctions, or are revisiting existing ones. Employing organizations and clients risk coming under sanctions if they work with sanctioned Russian or Belarussian entities or individuals, or risk liability for breach of sanctions, with potential adverse financial, operational and reputational consequences.

6. In this dynamic context, complying with the principles of professional competence and due care and professional behavior means that PAs whose employing organizations or clients have, or are likely to have, business dealings with entities or individuals in Russia and Belarus must keep up to date with the full scope and impact of any applicable sanctions. This is to enable their employing organizations or clients to comply with the relevant sanctions laws and regulations. It is especially important that PAs understand the links in their employing organizations' or clients' supply chains or business operations that might be exposed to sanctions to avoid inadvertent breaches. Acting with due care also means that PAs should keep their employing organizations' customer or client base under review and, where necessary, take appropriate steps to avoid breaching sanctions, including potentially ending business or client relationships.

7. Sanctions laws can be complex and far-reaching, impacting not only the customers or clients with which an employing organization does business but also its suppliers, business partners, agents and contractors. Depending on the employing organization's or client's business, it may be necessary to consider not only sanctions imposed by the jurisdiction where the employing organization or client is domiciled but also those imposed by jurisdictions where it has business operations. Sanctions laws can also be vaguely drafted. For example, certain sanctions laws ban the provision of "accountancy" and "management consultancy" services to Russian and Belarussian entities and individuals without detailed guidance. Complying with the principle of professional competence and due care means that PAs should consult with the relevant regulatory authorities or seek legal advice where the application of relevant sanctions laws is unclear or uncertain.

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[2] Paragraph R113.1

[3] Paragraph R115.1

Inquiring Mind

8. The Code requires PAs to have an inquiring mind when applying the conceptual framework.[4] This involves considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity, and being alert to the need for further investigation or other action.[5]

9. While sanctions remain in force, there is an increased risk that Russian and Belarussian entities and individuals may attempt to use certain countries or jurisdictions to evade sanctions. Employing organizations or clients may be approached by entities or individuals in Russia or Belarus for business dealings in areas targeted by sanctions. PAs might also encounter situations where they are asked by business partners or clients based in Russia or Belarus to assist in moving assets abroad. In such situations, demonstrating an inquiring mind means that PAs should ask pertinent questions about the background of the customer or client, the nature and purpose of the business transaction, and the identity of the ultimate beneficiaries of the transaction. Such information will enable PAs to assess the potential for any breach of sanctions. PAs should also be prepared to follow up with the appropriate parties where they have reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to them.

Sanctioning Situation

10. If PAs suddenly finds themselves in a sanctioning situation (e.g., a new sanction has just been imposed), they should carefully assess the facts and circumstances to determine how best to disengage to avoid breaching the relevant sanctions. PAIBs may need to engage with the responsible parties within the employing organization to take timely steps to discontinue any business transactions with the sanctioned entity or individual. For PAPPs, careful consideration will be needed as to how to end the professional service or client relationship on a timely basis. Both PAIBs and PAPPs may consult with relevant regulators or other public authorities if necessary. It may also be necessary to seek legal advice to understand the implications of terminating business or professional services contracts.

New Information or Changes in Facts and Circumstances

11. In all circumstances, the Code requires PAs to exercise professional judgment[6] and sets the expectation that they remain alert for new information or changes in facts and circumstances.[7] This means that in the rapidly changing regulatory landscape of sanctions, PAs need to be alert to potential new threats to compliance with the fundamental principles and, if so, evaluate and address them. A rapidly shifting sanctions landscape might also impact the evaluation of previously identified threats. In such circumstances, the Code requires PAs to re-evaluate and address such threats.[8]

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4 Paragraph R120.5(a)

5 Paragraph R120.5 A1

6 Paragraph R120.5(b)

7 Paragraph 120.9 A1

8 Paragraph R120.9

12. In accordance with the principle of professional competence and due care, PAs whose employing organizations are impacted by sanctions are advised to put in place appropriate policies, processes and systems of internal control to monitor the evolving sanctions landscape and to enable their employing organizations to meet their legal compliance obligations.

Non-Compliance with Laws and Regulations (NOCLAR)

13. PAs are reminded that they have an obligation under the Code to respond to NOCLAR or suspected NOCLAR.[9] NOCLAR is any act of omission or commission, intentional or unintentional, by an employing organization or client, TCWG, management, or other individuals working for or under the direction of the employing organization or client, which is contrary to the prevailing laws or regulations.[10] Under the Code, PAs are not required to search for NOCLAR. However, the Code requires them to take action if, in carrying out their professional activities, they come across information that indicates an instance of NOCLAR or suspected NOCLAR. The Code provides a comprehensive framework to guide PAs in responding to NOCLAR or suspected NOCLAR in the public interest (see Section 260 for PAIBs and Section 360 for PAPPs).

14. In the context of the Ukraine conflict, NOCLAR or suspected NOCLAR might arise through a breach of sanctions laws and regulations by employing organizations or clients. A breach of sanctions laws and regulations is an instance of NOCLAR, whether it was intentional or inadvertent. A breach is not limited to transacting directly with a sanctioned entity or individual but it can arise through business dealings with intermediaries in jurisdictions other than Russia and Belarus for which the ultimate beneficiaries are Russian or Belarussian entities or individuals subject to sanctions. Therefore, having an inquiring mind as required by the Code is especially important when carrying out professional activities that involve (a) dealing with customers or clients based in Russia or Belarus or that have business or financial interests in those countries, or (b) dealing in areas subject to sanctions, for example, in relation to the export of sensitive electronics or certain types of machine parts.

15. PAs are also reminded that the economic disruptions and social upheaval caused by the Russia-Ukraine war, especially in Ukraine, have created numerous opportunities for fraud, money laundering and other criminal activities. In particular:

    - As a result of the wide-ranging sanctions on Russian and Belarussian entities and individuals, there is an increased risk of sanctions-evading activity and related money laundering to shield assets from potential seizure, especially in jurisdictions that have received significant amounts of capital linked to Russian entities or oligarchs.[11]

    - In response to the refugee crisis caused by the conflict, governments and international agencies have provided significant humanitarian assistance to countries, especially in Europe, that have received large numbers of Ukrainian refugees. The rapid deployment of such assistance, both financial and in-kind, the large amounts involved, and the ongoing need for such assistance create significant opportunities for fraud. Examples include

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[9] Section 260, *Responding to Non-compliance with Laws and Regulations* (for PAIBs); Section 360, *Responding to Non-compliance with Laws and Regulations* (for PAPPs)

[10] Paragraphs 260.5 A1, 360.5 A1

[11] For common techniques used to evade financial sanctions, see the UK National Crime Agency's *Red Alert: Financial Sanctions Evasion Typologies: Russian Elites and Enablers*

procurement fraud for supplies to assist in resettling refugees, and benefit fraud, including fake claims for hardship assistance.

Complying with Regulatory Filing Requirements

16. Many multi-national companies have subsidiaries, joint ventures and other investees in Russia through which they have conducted business operations in the Russian market. As a result of the Ukraine conflict and associated sanctions on Russia, many of those companies have taken actions to withdraw from that market, sell off businesses or wind down business operations. In most cases, the need for such actions has not been foreseen, leading to a disorderly and unpredictable exit.

17. Such uncertainties have implications for the timely preparation and audit of the companies' financial statements, creating risks to meeting regulatory filing requirements. The relevant regulatory authorities may have issued special waivers or accommodations regarding regulatory filing requirements to companies affected by Russia's invasion of Ukraine. In accordance with the Code's requirement to comply with laws and regulations, PAs must keep abreast of these developments and, if necessary, consult with the relevant regulatory authorities on the specific facts and circumstances on behalf of their employing organizations or clients.

Inducements

18. Under the Code, PAs are prohibited from offering or accepting inducements where the intent is to improperly influence the recipient's behavior, resulting in a breach of the fundamental principle of integrity.[12] In the context of the Ukraine conflict, PAs should be aware that there is an increased risk of bribery and corruption due to the sanctions imposed on certain Russian entities and oligarchs. In particular, these entities and individuals might be tempted to offer bribes to PAs in jurisdictions where they have moved significant capital and acquired significant assets to conceal their existence or otherwise seek to avoid their seizure. Sections 250 and 340 provide practical guidance to PAIBs and PAPPs, respectively, in navigating situations involving inducements.

III. Additional Considerations Applicable to PAIBs

Preparation and Presentation of Information

19. As one of the measures to manage uncertainty due to the changing regulatory sanctions environment and the significant business disruptions caused by the Ukraine conflict, complete, fair, and transparent information takes on special importance as employing organizations endeavor to chart paths forward amidst the pressures and uncertainties and seek sources of financial or other support to sustain their businesses and operations.

20. Section 220[13] of the Code contains provisions that are especially relevant to PAIBs in the context of accounting for and disclosing the impact of the Ukraine conflict on their employing organizations' business. In particular, Section 220 requires PAs to prepare or present information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately.[14]

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[12] Paragraphs R250.7 and R250.8 for PAIBs; and R340.7 and R340.8 for PAPPs

[13] Section 220, *Preparation and Presentation of Information*

[14] Paragraph R220..4(b)

Section 220 also prohibits PAs from omitting anything with the intention of rendering the information misleading.[15]

21. As key players in the financial reporting ecosystem, PAIBs are called upon to produce, analyze, and deliver information upon which critical decisions will be made. As they do so in the context of the Ukraine conflict, PAIBs are reminded of their ethical obligation to act with integrity,[16] even when doing so leads to reporting unfavorable information. The Code also prohibits PAs from knowingly associating with false or misleading information.[17] When a PAIB knows or has reason to believe that the information is misleading, Section 220 guides the PAIB to take appropriate actions to seek to resolve the matter.

Pressure

22. PAIBs in employing organizations with significant business operations in Russia may face various situations of pressure created by the Ukraine conflict and the associated sweeping economic sanctions imposed by other jurisdictions on Russia. These situations include, for example:

    - Pressure to exit business operations in Russia without sufficient time for proper due diligence.
    - Pressure to report misleading financial information to investors or lenders to minimize the financial repercussions of the conflict and sanctions on the employing organization's future business prospects, access to funding, and share price.

23. Section 270 of the Code requires PAs not to allow pressure from others to result in a breach of compliance with the fundamental principles, or to place pressure on others that the PA knows (or has reason to believe) would result in those individuals breaching the fundamental principles.[18] Section 270 also provides practical guidance to assist PAs in navigating situations of pressure.

IV. Additional Considerations Applicable to PAPPs

Client and Engagement Acceptance

24. Section 320[19] of the Code highlights the importance of understanding and knowing a proposed client before accepting the professional appointment. Section 320, in particular, explains that threats to compliance with the principles of integrity or professional behavior might be created, for example, from questionable issues associated with a client (its owners, management, or activities).[20] In the context of the Ukraine conflict, such threats might be created in circumstances that involve a professional service to assist a potential client in Russia or Belarus, or a client with business interests in those countries, to evade sanctions laws and regulations.

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15 Paragraph R220..4(d)

16 Paragraph R111.1

17 Paragraph R111.2

18 Section 270, *Pressure to Breach the Fundamental Principles,* paragraph R270.3

19 Section 320, *Professional Appointments*

20 Paragraph 320.3 A1

Overdue Fees

25. In the context of an audit of financial statements, firms are reminded of the overdue fees provisions in Section 410[21] of the Code if they have audit clients based in Russia or Belarus or clients with significant business in those countries. Section 410 explains that the level of the self-interest threat to independence might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement.[22]

26. Among other repercussions, the Ukraine conflict has had a significant adverse impact on the Russian economy, created significant challenges to overseas companies with business operations in Russia in keeping those operations viable, and led to drastic curtailment in Russian entities' access to the international payment processing networks or funds transfer mechanisms. As a result, firms with Russian clients or clients with significant business in Russia may face an increased challenge in collecting unpaid fees from those clients. The Code requires that when a significant part of the fees due from an audit client remains unpaid for a long time, a firm determine (a) whether the overdue fees might be equivalent to a loan to the client (in which case Section 511[23] is applicable), or (b) whether it is appropriate for the firm to be re-appointed or continue the audit engagement.[24]

Assuming Management Responsibility

27. Firms and network firms are reminded that the Code prohibits them from assuming a management responsibility for an audit client.[25]

28. In the context of the Ukraine conflict, there is an increased of risk assuming management responsibility in relation to non-assurance services that clients with significant business operations in Russia or Ukraine may approach firms to undertake. This is because these clients may no longer have the resources, or access to such resources, in Ukraine or Russia to carry out the necessary activities underpinning those services.

Helpful links and resources

Resources and Tools, including IESBA Code on the eIS platform

Responding to Non-Compliance with Laws and Regulations

Inducements: Final Pronouncement

Fees and Non-assurance Services: Final Pronouncements and Implementation Resources

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21 Section 410 (Revised), *Fees* (effective for audits of financial statements for periods beginning on or after December 15, 2022)

22 Paragraph 410.12 A1

23 Section 511, *Loans and Guarantees*

24 Paragraph R410.13

25 Section 400 (Revised), *Applying the Conceptual Framework to Independence for Audit and Review Engagements* , paragraph R400.13 (effective for audits of financial statements for periods beginning on or after December 15, 2022)

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About the IESBA

The IESBA is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

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