FINANCIAL REPORTING COUNCIL

MONTHLY UPDATES (July & August 2023) – What’s new from the International Federation of Accountants (IFAC)

The main topics for discussion at the IFAC during the period from July to August 2023 were with respect to:

**July 2023**

1. IFAC RELEASES SECOND INSTALLMENT IN IMPLEMENTATION SUPPORT SERIES FOR SMALL FIRMS ON THE IAASB’S QUALITY MANAGEMENT STANDARDS
2. IFAC RESPONDS TO EUROPEAN SUSTAINABILITY REPORTING STANDARDS
3. IESBA EMPHASIZES THE CRITICAL IMPORTANCE OF ETHICAL BEHAVIOR FOR ALL PROFESSIONAL ACCOUNTANTS
4. APESB AND IESBA STAFF JOINTLY ISSUE GUIDANCE ILLUSTRATING APPLICATION OF IESBA CODE TO TECHNOLOGY-RELATED SERVICES PROVIDED BY AUDITORS
5. IESBA ISSUES RESPONSE TO INSTITUTE OF INTERNAL AUDITORS’ EXPOSURE DRAFT
6. BROADENING THE ACCOUNTANCY PROFESSION’S REACH IN THE PUBLIC SECTOR
7. IESBA PUBLISHES INTERACTIVE 2022 ANNUAL REPORT

**August 2023**

8. INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) CONTINUES TO EMPHASIZE IMPORTANCE OF MATERIALS BEING AVAILABLE IN MULTIPLE LANGUAGES; THANKS WORLD BANK FOR RECENT SUPPORT PROVIDED
9. IAASB LAUNCHES PUBLIC CONSULTATION ON LANDMARK PROPOSED GLOBAL SUSTAINABILITY ASSURANCE STANDARD
10. IFAC CALLS ON G20 LEADERS TO LEAD ON SUSTAINABLE AND INCLUSIVE GROWTH; HIGHLIGHTS ENABLING ROLE OF ACCOUNTANCY PROFESSION
11. IFAC AND WMBC DEMYSTIFY GHG REPORTING AT CLIMATE WEEK NYC EVENT SEPTEMBER 19
1. **IFAC RELEASES SECOND INSTALLMENT IN IMPLEMENTATION SUPPORT SERIES FOR SMALL FIRMS ON THE IAASB’S QUALITY MANAGEMENT STANDARDS**

The International Federation of Accountants (IFAC) has on 05 July 2023 released the second installment in a three-part publication series to help small- and medium-sized practices implement the International Auditing and Assurance Standards Board’s (IAASB) quality management standards. *Installment Two: Developing a Detailed Implementation Plan* provides a step approach to identifying your quality objectives; completing your quality risk assessment process; identifying existing, or creating new, responses to those quality risks; and implementing, documenting, and communicating your system of quality management.

*Installment Two* also:

- Addresses the eight components of the IAASB’s International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements;
- Contains an example case study to illustrate the transition from the International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements; and
- Includes multiple documentation aids covering independence, acceptance and continuance of clients and engagements, resources, and outside consultation, as well as a sample checklist for engagement quality reviews.

*Installment One* of the series addressed the mindset change the new standards require and the shift in focus from quality control to quality management. Installment Three, expected later this year, will cover monitoring and remediation. This series joins IFAC’s collection of available resources that support quality management implementation, including webinars, articles and videos, as well as the IAASB first-time implementation guides, all of which are available at [ifac.org/qualitymanagement](http://ifac.org/qualitymanagement).

2. **IFAC RESPONDS TO EUROPEAN SUSTAINABILITY REPORTING STANDARDS**

As the global voice of the accountancy profession, the International Federation of Accountants (IFAC) supports corporate reporting that better addresses a company’s ability to create long-term value and is decision useful for investors and other stakeholders. Specific regulatory requirements are necessary to harmonize reporting practice and deliver consistent, comparable, assurable, and decision useful sustainability information.

To this end, IFAC has submitted feedback in response to the European Commission’s European Sustainability Reporting Standards (ESRS). In its response, IFAC welcomes the standards while noting significant concerns regarding the need for interoperability that supports a global system for reporting. In addition to the ESRS, IFAC has also welcomed the International Sustainability Standards Board’s (ISSB) new standards and other important jurisdiction or regional initiatives, notably the U.S. SEC’s proposed climate disclosure rule. However, these approaches must align
key concepts, terminologies, and metrics to avoid regulatory fragmentation, especially on matters of materiality.

“We strongly support efforts by the European Commission and ISSB to find areas of interoperability in their standards, starting with climate. However, substantive differences remain, so collaboration must continue. This is crucial for investors and all stakeholders who want interoperable ESRS and ISSB standards and connectivity between sustainability and financial information,” said IFAC CEO Kevin Dancey. “ISSB standards should function as a global baseline for all jurisdictions, including the EU for financial materiality, to adopt or align with. This is also why we need transparency—a navigation tool to help stakeholders know where the areas of alignment exist.”

Implementation by companies and enforcement by regulators of the new standards are essential to ESRS success. IFAC urges additional transitional reliefs to allow companies sufficient time to implement governance, processes, reporting capacity, and internal controls—all essential for high quality disclosure and its assurance.

As assurance brings trust and confidence to corporate reporting, IFAC encourages the European Commission to participate in ongoing stakeholder engagement with the International Auditing and Assurance Standards Board (IAASB) toward the goal of requiring use of the IAASB’s forthcoming new International Standard on Sustainability Assurance (ISSA) 5000 under the Corporate Sustainability Reporting Directive. The International Ethics Standards Board for Accountants’ (IESBA) work on establishing ethics and independence requirements for sustainability assurance practitioners is also vital to producing high-quality, reliable information.

3. **IESBA EMPHASIZES THE CRITICAL IMPORTANCE OF ETHICAL BEHAVIOR FOR ALL PROFESSIONAL ACCOUNTANTS**

Recent events in a number of major jurisdictions involving professional accountants have raised concerns with many stakeholders and the public about whether the accountants’ conduct was straightforward and honest, free from conflicts of interest, in accordance with confidentiality requirements, or in the public interest. A number of these events have resulted in government inquiries, significant regulatory penalties or other adverse consequences for the professional accountants or their firms, and undermined public trust in the accountancy profession.

Among all professions, the global accountancy profession stands apart in having a comprehensive and robust code of ethics in the International Ethics Standards Board for Accountants’ (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code)* that it must apply. The Code is developed in accordance with a rigorous due process and under the oversight of the Public Interest Oversight Board (PIOB). The strength and global acceptance of the Code are evidenced by its adoption or use in over 130 jurisdictions, and adoption by the 34 largest international networks of accounting firms for transnational audits.
“Ethics is fundamental to public trust in the work of all professional accountants and it must always be at the heart of their judgments, decisions, and actions when performing professional activities or services,” said Gabriela Figueiredo Dias, IESBA Chair. “The high-quality ethics standards in the Code are a cornerstone to ethical behavior in business and organizations, and they underpin the accountancy profession’s longstanding good reputation. It is therefore crucial that all accountants fully understand and comply with all their ethical obligations under the Code.”

Professional accountants must act in all business and professional dealings or relationships in accordance with the five fundamental principles of the Code:

- **Integrity** by being straightforward and honest;
- **Objectivity** by not being compromised by bias, conflict of interest, or undue influence of, or undue reliance on, individuals, organizations, technology or other factors;
- **Professional competence and due care** by maintaining professional knowledge and skill at the level necessary to competently perform their work, and acting diligently;
- **Confidentiality** by respecting the confidentiality of information acquired as a result of professional and business relationships; and
- **Professional behavior** by complying with relevant laws and regulations, behaving in a manner consistent with the profession’s responsibility to act in the public interest, and avoiding any conduct that might discredit the profession.

The fundamental principles clearly establish the standard of behavior expected of all professional accountants. The Code also contains detailed provisions specifying the conduct and mindset expected of all professional accountants, including demonstrating an inquiring mind and having the strength of character to act appropriately, even when facing pressure or potential adverse personal or organizational consequences.

Importantly, the Code sets a clear expectation for professional accountants, especially those in leadership or managerial roles, to promote an ethical culture within their organizations.

Upholding the fundamental principles and complying with the specific requirements of the Code enable professional accountants to meet their responsibility to act in the public interest. These obligations are in no way lightened or diminished by the types of activities or services they undertake. The Code applies to professional accountants in all their professional activities, whether it is audit, tax, consulting or other advisory services, or in business. Non-compliance with ethical requirements not only creates a risk of adverse consequences for accountants from a professional or regulatory standpoint, but also may result in profound negative consequences for firms, employing organizations, clients, other stakeholders, and the public at large. Ethical failures can also damage the profession’s reputation.

Ethics is central to the proper functioning of organizations, financial markets, and economies worldwide. The fundamental principles are the foundation to ethical behavior within organizations and underpin the integrity and credibility of financial and non-financial information. An organizational culture that integrates an ethical approach strengthens public
trust in professional accountants’ work, safeguards the well-being and sustainability of organizations, and ultimately serves to protect the public interest.

4. **APESB AND IESBA STAFF JOINTLY ISSUE GUIDANCE ILLUSTRATING APPLICATION OF IESBA CODE TO TECHNOLOGY-RELATED SERVICES PROVIDED BY AUDITORS**

Rapid advances in technology are transforming the way professional accountants conduct their work. To assist them in ethically navigating the challenges and opportunities brought by these advances, the Staff of the Australian Accounting Professional & Ethical Standards Board (APESB) and the Staff of the International Ethics Standards Board for Accountants (IESBA) has on 13 July 2023 jointly released *Applying the Code’s Conceptual Framework to Independence: Practical Guidance for Auditors In Technology-related Scenarios*. The publication describes key technology-related provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) and provides auditors with three practical examples involving technology-related non-assurance services to illustrate how to apply the Code’s requirements with respect to independence.

“This joint APESB-IESBA Staff publication is timely and fulfills a commitment we have made to collaborate with national standard setters and others to provide helpful guidance to assist auditors in implementing and consistently applying the Code’s revised technology-related provisions,” said Gabriela Figueiredo Dias, IESBA Chair. “Over the past three years, the Board has dedicated strategic focus and significant resources to addressing the ethics and independence implications of technological innovation such as AI, blockchain, and data analytics, culminating in strengthened technology-related provisions in the Code and two comprehensive reports under Phases 1 and 2 of its fact-finding work.”

This non-authoritative publication was developed jointly by the Staff of the APESB and IESBA under the auspices of the IESBA's Technology Task Force, initiated as part of the IESBA's Phase 2 Technology Working Group activities.

5. **IESBA ISSUES RESPONSE TO INSTITUTE OF INTERNAL AUDITORS EXPOSURE DRAFT**

IESBA has recently provided a formal response to the Institute of Internal Auditors (IIA) on the public consultation: Proposed Global Internal Audit Standards. The IESBA commended the IIA's efforts in making the proposed standards clearer and easier and agree that it is an important strategic priority and in the public interest to ensure international standards such as the IIA standards and IESBA Code remain fit-for-purpose and relevant in addressing key issues users of the standards face.

In IESBA’s response, the global ethics standards setting board highlighted the importance of a comprehensive framework, such as the IESBA’s conceptual framework, to assist internal auditors to identify, evaluate, and address threats to the principles set out in the proposed IIA standards when performing their internal audit function.
The IESBA raised its concern in the use of well-established terms such as “independence” and “professional skepticism”, as these terms are generally used in the context of external audit and assurance engagements.

6. BROADENING THE ACCOUNTANCY PROFESSION’S REACH IN THE PUBLIC SECTOR

The public sector is the largest sector in the global economy, and with complex finances, competing demands on public resources, and the need for transparency and accountability in the management of public funds, the demand for accounting and finance professionals is high. However, many public sector entities, including at national and local government levels, struggle to find suitable candidates with the right skills to fill these positions.

In collaboration with the South African Institute of Chartered Accountants (SAICA), IFAC has published a case study on SAICA’s activities in the public sector, highlighting how a focus on the public sector supports its mandate to contribute to South Africa’s economic and social advancement. SAICA’s priorities include increasing the professionalisation of the public sector through multiple pathways to attract talent and grow its membership, as well as supporting members through professional development and by advocating on their behalf.

“Professional accountancy organizations (PAOs) have a critical role to play in the public sector,” said Stathis Gould, Director of Member Engagement at IFAC. “PAOs can promote the value of a professional workforce, advocate for accountants, and support members’ professional development, which will help the public sector do more with less, and ultimately reinforce trust in public services and spending. SAICA is an excellent example to learn from.”

Dive into SAICA’s methods in IFAC’s case study, Broadening the Accountancy Profession’s Reach in the Public Sector.

7. IESBA PUBLISHES INTERACTIVE 2022 ANNUAL REPORT

The International Ethics Standards Board for Accountants (IESBA) has on 31 July 2023 released its 2022 Annual Report, Reinforcing Ethics and the Public Interest in a Rapidly Evolving World.

The digitally interactive report looks back at 2022 through the eyes of the international ethics standard-setting board, complete with detailed reports on the Board’s projects alongside reflective remarks from its leaders. The report showcases a board in transition, completing long-running projects aimed at further strengthening the IESBA’s International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code), addressing the ethical implications of rapid technological advances, and moving fast to develop the necessary ethics and independence standards for sustainability reporting and assurance, always working to serve the public interest.

“IESBA’s work in 2022 will ultimately strengthen the public’s trust in the professional accountant, corporate reporting and businesses more generally at a time of rapid change and complexity,” said IESBA Chair Gabriela Figueiredo Dias. “Collectively, we’ve ensured the necessary strategic adjustments to better serve the public interest in a context of complex developments that we
face today, like sustainability and technology, through our actions to enhance our global ethics and independence standards, thereby raising the bar for ethical conduct and practice for all professional accountants and other service providers that may want to use our standards.”

Beyond the updates on IESBA projects, the 2022 IESBA Report features an overview of the Board’s extensive stakeholder outreach efforts and information about its efforts to promote global adoption and effective implementation of the Code. The Report also includes a message from the IESBA’s Consultative Advisory Group (CAG) Chair, Mr. Gaylen Hansen.

8. INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) CONTINUES TO EMPHASIZE IMPORTANCE OF MATERIALS BEING AVAILABLE IN MULTIPLE LANGUAGES; THANKS WORLD BANK FOR RECENT SUPPORT PROVIDED

The International Federation of Accountants (IFAC) plays a vital role in driving the development, adoption, and implementation of transparent and high-quality international standards. These standards for audit and assurance, ethics and independence, education, and public sector accounting are used by professional accountants and serve as a fundamental pillar within the global financial architecture.

The World Bank, an institution dedicated to providing financing, policy advice, and technical assistance to governments of developing countries, recently extended significant financial support to expand the accessibility of certain materials (noted below) into Spanish and French. This support broadens the availability of these publications to IFAC’s global audience and their stakeholders, and helps to promote greater economic growth, development, and accountability.

In jurisdictions where English is not an official or business language, one of the primary obstacles to successful adoption and implementation of international standards is the lack of access to translations in local languages. IFAC takes proactive steps to tackle this challenge by collaborating with member organizations in leveraging their technical expertise to provide translation support, as well as engaging with donors to help further facilitate the translation process.

IFAC CEO Kevin Dancey said, “IFAC thanks the World Bank and our member organizations for their generous financial support in expanding the accessibility of multilingual materials. Your invaluable contribution has made a profound impact on our efforts to foster the adoption and implementation of international standards on a global scale. Consequently, this will pave the way for driving progress, bolstering economic stability, and ensuring responsible financial practices worldwide.”

9. IAASB LAUNCHES PUBLIC CONSULTATION ON LANDMARK PROPOSED GLOBAL SUSTAINABILITY ASSURANCE STANDARD

The International Auditing and Assurance Standards Board (IAASB) has on 02 August 2023 issued its proposed *International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements*. With its focus on assurance on
sustainability reporting, ISSA 5000, when approved, will be the most comprehensive sustainability assurance standard available to all assurance practitioners across the globe.

“Our proposed ISSA 5000 is a crucial step in enhancing confidence and trust in sustainability reporting. This proposal directly responds to the International Organization of Securities Commissions recommendations and complements the work of other standard setters, including the International Ethics Standards Board for Accountants,” noted IAASB Chair Tom Seidenstein. “Corporate reporting, whether financial or sustainability focused, is more trusted when it receives external and independent assurance based upon globally accepted standards independently developed in the public interest.”

ISSA 5000 is a principles-based, overarching standard suitable for both limited and reasonable assurance engagements on sustainability information reported across any sustainability topic. The IAASB drafted the standard to work with sustainability information prepared under any suitable reporting framework. These frameworks include the many reporting frameworks already in place and those under development, including but not limited to those issued by the European Union, the International Sustainability Standards Board, the Global Reporting Initiative, the International Organization for Standardization, and others. The standard is profession agnostic, supporting its use by both professional accountant and non-accountant assurance practitioners when performing high quality sustainability assurance engagements.

The IAASB is committed to an extensive, high-level outreach plan to ensure broad stakeholder input. One core element of the outreach is a series of four roundtables beginning in September. The IAASB will also take part in virtual, regional, and national events, many held in partnership with other organizations, throughout the consultation period.

“Receiving the broadest range of views from our stakeholders will improve both the quality of and trust in the final standard. Our unprecedented commitment to outreach will allow us to engage directly with a much wider group of stakeholders to gather the valuable insights we need to finalize a high-quality robust standard,” noted IAASB Vice-Chair and Sustainability Task Force Chair Josephine Jackson.

10. **IFAC CALLS ON G20 LEADERS TO LEAD ON SUSTAINABLE AND INCLUSIVE GROWTH; HIGHLIGHTS ENABLING ROLE OF ACCOUNTANCY PROFESSION**

In September 2023, the United Nations will mark the half-way point to the deadline set for achieving the 2030 Agenda and the Sustainable Development Goals. This is an important juncture for global leaders to reflect on the progress we have made, the progress we have not made, and the challenges we face ahead.

Reflecting on the G20’s current theme of One Earth, One Family, One Future, IFAC, acting in its role as the global voice of the accountancy profession, highlights the importance of inclusivity in underpinning sustainable development in its 2023 Call to Action. We must approach sustainability, the public sector, small- and medium-sized entities (SMEs), and education with an inclusive approach to make sure that the opportunities of today and tomorrow are shared, and that economic and social development are truly sustainable.
“We have serious challenges ahead of us. Fortunately, the global accountancy profession is a committed partner, doing our part to drive sustainable development and demonstrating leadership as a truly global and inclusive profession,” said IFAC CEO Kevin Dancey.

IFAC calls on G20 leaders to:

1. Make Sustainability A Reality, Not Just a Goal
   - Lead on achieving the UN SDGs and provide a foundation for net zero transitions
   - Support the ISSB’s global baseline for sustainability disclosures
   - Support mandatory assurance of sustainability information pursuant to ISSA 5000
   - Support the work of the International Public Sector Accounting Standards Board to develop sustainability reporting standards for the public sector

   - Support high-quality public financial management, professionalization in the public sector, and accrual accounting at all levels of government
   - Continue to prioritize full adoption and implementation of global commitments on the fight against corruption, such as the G20 Anti-Corruption Action Plan

3. Create an Environment for SME Growth and Innovation
   - Embed the unique needs of SMEs into global policy making
   - Support access to digital infrastructure and skills for SMEs
   - Provide a supportive regulatory environment for SMEs

4. No Inclusive Growth without Education
   - Support equal access to education, including STEM (science, technology, engineering and math) and accounting skills
   - Support financial literacy globally and locally

11. IFAC AND WMBC DEMYSTIFY GHG REPORTING AT CLIMATE WEEK NYC EVENT SEPTEMBER 19

Mandatory greenhouse gas (GHG) emission disclosures are on the way in various jurisdictions, and fortunately, meeting the evolving GHG reporting standards may not be as expensive or difficult as some companies fear. When it comes to GHG emissions accounting especially, sustainability reporting can function as an extension of existing financial reporting, and companies of any size can take immediate steps to ensure their data is in order and that they’re reporting robust information when the new standards and rules go into effect.

To explore aligning GHG emissions accounting with financial reporting systems and processes to deliver decision-useful GHG reporting, the International Federation of Accountants (IFAC) and
the We Mean Business Coalition (WMBC) present a Climate Week NYC event, *Achieving Investor-Grade GHG Reporting: The Role of Accounting and Finance Professionals*. The event will be held virtually September 19 at 9:00am ET and feature experts discussing their experiences, challenges, and best practices in collaborating with sustainability professionals and others to improve GHG reporting that satisfies both organizational and investor needs.

The panel discussion will be moderated by Stathis Gould, Director, IFAC and feature:

- Eugene Brink, Vice President, Finance Transformation, GE Vernova
- Jimmy Greer, ESG Specialist, Datamaran
- Mike Harris, ESG Services Leader at PwC Canada; Chair, Sustainability Assurance Committee, Auditing and Assurance Standards Board (AASB)
- Jane Thostrup Jagd, Director, Net Zero Finance, We Mean Business Coalition; Former Lead Compliance Officer at Maersk and Ørsted
- Additional panelist TBA

“Professional accountants and finance professionals play a crucial role in providing decision-useful and trusted GHG reporting to management and capital markets,” said Kevin Dancey, IFAC CEO. “With an integrated mindset that connects financial and emissions data, accountants advance progress towards our most urgent shared goal: achieving climate commitments.”

*For further information: [http://www.ifac.org](http://www.ifac.org)*

*Financial Reporting Council*

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